

# An Assessment of the Informal Money Lending Practices to the Micro-Entrepreneurs

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## ABSTRACT

The research study of An Assessment of the informal money lending practices to the micro-entrepreneurs is applied to determine the ways in understanding the behaviour of micro entrepreneurs. Also to create and recommend long term solution for the problems encountered by the micro entrepreneurs in terms of informal money lending.

Informal money lending are money lenders who are not licensed to do money lending business. In today's generation, micro entrepreneurs most preferred way to borrow money because it is the most convenient way to have financial capital.

This study used the descriptive method in gathering the information about the reason of borrowing money, problems encountered and advantages of informal money lending on the part of micro enterprises. The descriptive method describes the real life experience of micro entrepreneurs and how the informal money lending affects the operation of the micro businesses.

The researchers used Simple random sampling in choosing the respondents 25 vendor and 25 micro entrepreneurs, with the bracket of 21-30 years old with the total of 50 respondents. The tools used for the analysis of data were percentage and weighted mean average.

The informal money lending is now a vital part of life specifically in micro business for it is the easiest way to borrow money. Nonetheless it has a high interest rate compared to the informal money lending.

**Keywords:** informal money lending, micro entrepreneurs, behaviour, micro business, economy

## INTRODUCTION

During these hard times, a lot of people will seek the help of those engaged in money lending business. It is the way to help support their families, to support financial needs of micro-entrepreneur and also to ease poverty.

Informal money lenders are money lenders who are not licensed to do money lending business. "5'6 is an example of informal money lending business and we are all aware of this kind of informal lending business which is patronized by some micro-entrepreneur and people who wants to put-up a new business in urban areas. "5-6" is the term use in such a reason that they lend money with 20% interest. Like for example, if you borrow from them worth 500 pesos, you will be returning it at the amount of 600 pesos or 20% interest rate within one month or upon the agreed condition.

Micro-entrepreneurs are the most patronizing party in this form if business because they are the ones who are in needs of financial capital for the daily financing activities of their businesses. In order for us to understand and give us the idea why do they are more preferred to borrow in Bombay than other formal

institutions, the selected researcher's wish to understand and measure the effects of this form of business to them, the advantages and the disadvantages.

This research aims to know the assessment of informal money lending practices to the micro-entrepreneur. In order to find ways in understanding the behavior of micro-entrepreneurs and to identify and recommend solution for the problem encountered between informal money lenders and micro-entrepreneurs, researches conduct this research study to know more about the strength, weaknesses, and threats of the informal money lending business and in order to formulate reasonable decision that will lead to the competitive advantages in the formal money lending businesses. Researchers try to study and analyze if the informal money lending business if it is recommendable or not to the micro-entrepreneurs and to the general public.

### **STATEMENT OF THE PROBLEM**

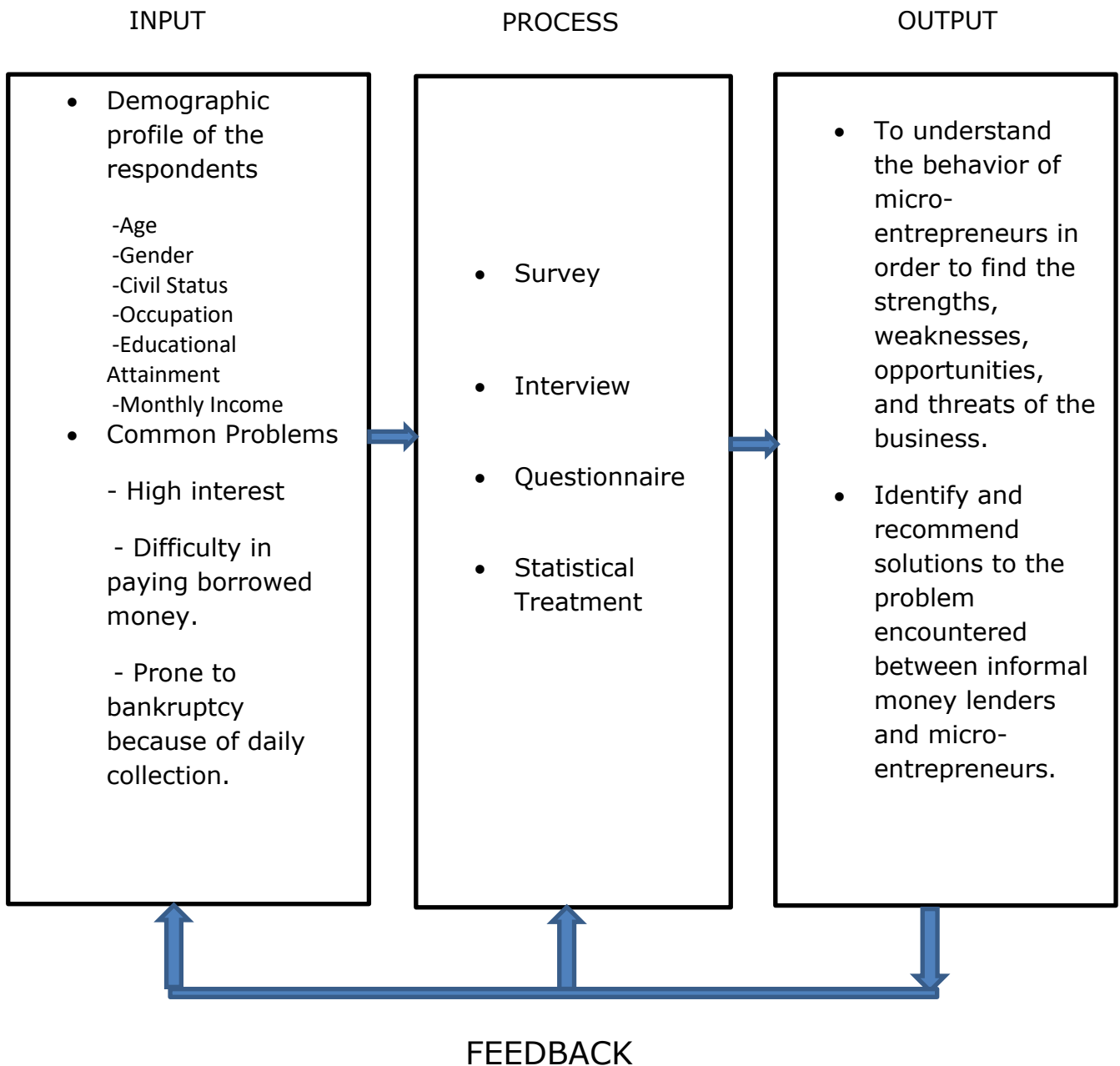
This study aimed to determine the assessment of the informal money lending practices to the micro-entrepreneurs.

Specifically, it sought to answer the following questions.

1. What is the profile of the respondent in terms of the following:
  - a. Age
  - b. Sex
  - c. Civil Status
  - d. Occupation
  - e. Monthly Income
  - f. Educational Attainment
2. What are the reasons of Borrowing Money from Informal Money Lenders?
3. What are the advantages on the part of the micro-entrepreneurs when they transact with informal money lenders?
4. What are the problems encountered by the retailers when borrowing money from the informal money lenders?
5. Is there any significant relationship between occupation and monthly income as regards to informal money lending practices as assessed by the respondents when grouped according to their profile ?

### **CONCEPTUAL FRAMEWORK**

The development process in the conduct of the study is presented in the paradigm. The researcher conceptualized the Input-Process and Output (IPO) in the conduct of the study.



**The Figure 1. stated the detailed and processed that the researchers have conducted this study.**

The demographic profile contains the needed preferences about the background or profile of the respondents (age, gender, civil status, occupation). The statement of the problem contains all the questions on the survey questionnaire and the needed statistical data for the study in order to determine the number of the respondents.

The researcher processed this study with the use of questionnaires distributed to the respondents; tabulation of gathered data's using statistical treatment such as frequency and percentage. This was produced further interpretation and analysis of data's being collected.

The output will lead the researchers to understand and identify the behavior of micro-entrepreneurs in order to find the strength, threats and weaknesses of the business and identified the solution for in the proposed problems by both lenders and micro-entrepreneurs in order to prove the effectiveness of the said

business to the micro-entrepreneurs in recommending alternative courses of action about the effectiveness of the informal money lenders to the micro-entrepreneurs.

### **SIGNIFICANCE OF THE STUDY**

The study will be significant and will benefit the following:

**Business Students.** This study will give information to the business students that will serve as their source of information on the strength and weaknesses and in developing strategy about money lending business. **Micro-entrepreneurs who are Planning to Borrow Money from Informal Money Lenders.** The result of this study may give awareness to micro-entrepreneurs who are planning to borrow money from informal money lenders in relation to the effect of informal money lenders in their business and how they will react in this situation.

**Creditors.** This study will help them look into possible situation that may guide them in deciding whenever they borrow money.

**Barangay.** Hopefully this study and its result may lead to the local government officials in implementing some laws and regulation that will help the micro-entrepreneurs in supporting their business.

**Researchers.** This research gave us additional knowledge and learning about classifications in hiring manpower where we can apply in the future.

**Future Researchers.** This research may serve as guidelines to their chosen course and chosen problem.

### **LITERATURE AND STUDIES**

Eugene Matura from Kigali in her write up about informal money lending stated that “this illegal money lending has high side effects because it affects property and individual’s security as well as crippling the nation’s economy”.

Norunn Haugen found in their Literature that village lenders in Nepal lend only to individuals whom they know well. This indicates that village lenders know a potential borrowers risk type and we assume that screening problems for village lenders are largely solved by personalized relationships and interlink ages between markets. We suppose that village lenders do not face any significant screening costs. Both village and market lenders were active in all villages we visited. Market lenders who are not involved in local trade or village activities lack first-hand information about potential

Borrowers ‘credibility.

Manny Canto stated on his article entitled “In Depth” that “it is an open secret that theses Indian Nationals are doing business all over the Philippines and their business is within the ambit of economy. According to his research “Underground Economy: refers to the part of the economy that generates income, but goes untaxed.

Godofredo Rompers in his Suns Star commend on taxing “5-6” lenders. He states that “money lending among those whom the banks, would never extend a loan to, and those who believe borrowings from the banks is a lot of paper work and red tape, is a highly lucrative business operation, able it a lot of hard work, sacrifice and patience. Interest, I think it is well worth their sacrifice and patience. This kind of lending that is all over the rural areas is operated only by the so-called “Bombay” or the Indian Nationals. Wulan stated in his study that informal money lending, informal credit in supply of formal credit in developing countries. Despite an increase in supply of formal credit in rural areas, informal lenders remain dominant source of credit for the poorest households. Improvements of productivity are important in development process. Productive investment requires funding and access to credit crucial for the purpose.

Credit might also be a mean tide over bad time caused by sudden illness or an upcoming wedding for poor individuals. Previous studies of the informal credit market demonstrate extremely high informal interest rates charged on loans to poor individual order to make policies that can positively affect poor people's living conditions; we must understand how informal lenders set the interest rates.

As a developing country, the Philippines have a large informal sector comprised of micro-enterprises. Many of these are severely restricted small vendors operating in public markets, whose survival in business relies heavily on access to financing. The usually comes from the informal sector is called "5-6" because of the manner in which they lend, "which" charge nominal interest rate of 20% over an agreed period of time. A person who borrows 5 pesos from a "5-6" over a period of one week repays 6 pesos, including 1 peso interest. There are two types of 5-6 financiers found in Philippine public market they are Filipino and Indians (Bombay) "5-6" money lenders that require collateral or documents from their borrowers. The success of the borrower's business and loan repayment history provide a gauge of the borrower's credibility. Five-Six money lenders undertake daily collections of payment in the morning, afternoon or both. A client's daily payment is determined by the sum of the principal borrowed plus its 20% nominal interest divided by the credit term. The loan arrangement is flexible; if the clients fails to pay one day, it is understood that he or she will pay for the missed the next time around.\*(Mari Kondo).

## METHODOLOGY

This chapter contains the research used such as the descriptive method of research with this, best as cited by Caraan (2010); descriptive research describes and interprets what is. It is concerned with conditions of relationships that exist: practices that are being felt, or trends that are developing.

It is also called statistical research. It is used to obtain information concerning the current status of the phenomena to describe, "What exists" with the respect to variables or conditions in a situation. The main goal of this type research is to describe the data and characteristics about what is being studied. The idea behind this type of research is to study frequencies, averages, and other statistical calculations. It is quantitative and uses survey and panels and also the use of probability sampling. The research method used is quantitative. Data levels of measurement are treated accordingly.

### Respondents of the Study

The respondents of the study are composed of 25 vendors and 25 micro-entrepreneurs within the vicinity of Sampaloc, Manila.

### Data Gathering Procedure

The study used survey questionnaire, interview, and structured questionnaire to gather vital information about "An Assessment of the Informal Money Lending Practices to the Micro-Entrepreneurs".

The researchers will collect tally and analyse the data for presentation and interpretation of the tables.

### Data Gathering Instruments

Survey, Questionnaire, Statistical Treatment and Interview

### Statistical Treatment of Data

The following statistical tools and techniques are used to ensure valid and systematic presentation, analysis and interpretation of data.

## 1. Frequency/Percentage

It is used to define as a number represented as a fraction of 100. Percentages are used to express numbers between zero and one. It is used to compare things and use it in ratios. It is denoted by the symbol %.

Formula:

$$P = \frac{f}{n} \times 100$$

Where:

P (Percentage) = The number of time any event occur in a period

F = Frequency note or proportion per number

N = Total number of Respondents answer

### 2. Weighted Mean

This was used to determine the level of effectiveness, problems encountered and the proposed measures in the Educational Technology.

Formula:

$$x = \frac{\sum fx}{n}$$

Where:

$x$  = Mean

$\sum fx$  = Total Criteria of Respondents and Frequency

$n$  = Number of the Respondents

### 3. Chi Square Formula

The Chi Square test is the most important and most used method in statistical tests. The purpose of Chi Square test is to know as the difference between an observed frequency and expected frequency. This test sometimes is also used to test the differences between the two or more observed data. Its value can be calculated by using the given observed frequency and expected frequency.

Formula:  $\chi^2 = \sum \frac{(O-E)^2}{E}$

Where:

**O** = Observed frequency

**E** = Expected frequency

$\sum$  = Summation

$\chi^2$  = Chi Square value

## RESULTS AND DISCUSSION

### Problem No. 1 What are the reasons of Borrowing Money from Informal Money Lenders?

Scale	Range	Verbal Interpretation	Symbol
5	4.5 - 5.4	Strongly Agree	SA
4	3.5 - 4.4	Moderately	M
3	2.5 - 3.4	Agree	A
2	1.5 - 2.4	Disagree	D
1	0.5 - 1.4	Strongly Disagree	SD

**Table 1 Weighted Mean and Frequency Counts on the Reason why micro-Entrepreneurs Borrow money from informal money lenders**

CATEGORY	Weighted Mean	Verbal Interpretation
1. Capital for the Business	3.2	Agree
2. Everyday expenses of the business	3.74	Moderately
3. Lack of knowledge about the bank loan agreement	3.18	Agree
4. No Enough Collateral loan	3.3	Agree
5. Simple procedure of borrowing	3.72	Moderately
6. Simple negotiation with the lenders	3.72	Moderately
7. Daily allowance for family expenses	3.02	Agree
<b>Overall Weighted Mean:</b>	<b>3.41</b>	<b>Agree</b>

Table 1 manifested the reasons of the micro-entrepreneurs in borrowing money from an informal money lender. The capital for the business as reason show 3.2 in weighted mean which means they are agree. 3.74 is Moderately as everyday expenses of the business, lack of knowledge about the bank loan agreement as reason is agree that has a weighted mean of 3.18, the reason of no enough collateral to loan from bank has a weighted mean of 3.3 is agree, simple procedure of borrowing has weighted mean of 3.72 is moderately. Simple Negotiation with the lenders are agree 3.72 in weighted mean and reason as daily allowance for family expenses is also agree 3.02 in weighted mean.

Most of the respondents are moderately in the stated reasons above in terms of borrowing money. It means that there is also some collateral and procedures in borrowing money from an informal money lender. It seems that they have not enough ability to loan from bank and they preferred to borrow money from an informal money lender.

**Problem No.2** What are the advantages on the part of the micro-entrepreneurs when they transact with informal money lenders?

**Table 2**

PERCENTAGE			
ADVANTAGES	AGREE	DISAGREE	STRONGLY DISAGREE
1. It is easy now to start the planned business because of the money that can be lend from informal money lenders.	94%	6%	0%
2. It is easy to transact with bombay	68%	32%	0%
3. Flexible payment	48%	28%	24%
4. Can borrow money through friends as referral	16%	72%	12%
5. Less time consuming when paying loans because bombay is doing house collection of payment	50%	48%	2%
6. No need to present any clearance and other businesses papers when borrowing money	74%	18%	8%
<b>TOTAL PERCENTAGE</b>	<b>58.33%</b>	<b>34%</b>	<b>7.67%</b>

Percentage Distribution of the Advantages of borrowing money from an informal Money Lenders

The table 1 presented the easiness to start a business with money that can be lend from informal money lenders, 94% of them said that they are agree, 6% are disagree which is the lowest percentage. Most of the respondents who participated in this study which 94% of the total respondents are agree on the category that it is easy now to start the panned because of the money that can be lend from informal money lenders. The table 2 shows the simpler to transact with an informal money lender, 68% of the respondents said that they are agreed and which has the highest percentage. 32% are disagreed and no one respondents answered not applicable. Most of the respondents in this study which 68% of the total respondents are agree on the category that it is simpler to transact with an informal money lenders, because it is not the same on banks that a lot of paper works and documents are required before you borrow money.

The table 3 shows the percentage of the flexibility of payment to informal money lenders. 48% of the respondents agrees which is the highest among the respondents who answered disagree with 28% and not applicable is 24%.

The table 4 shows the percentage of friends as referral in borrowing money, the 72% of the respondents agreed, and which is the highest percentage compare to those 16% of the total respondents who answered disagree, and 12% answered not applicable. Most of the respondents involved in this study which 72% of the total respondents are agreed that they can borrowed money through their friends as referrals.

The table 5 yielded the less time consuming when paying back money, 50% of the total respondents are agreeing, while 48% of them disagreed and 2% answered not applicable.50% of the total respondents that are involved in this study are agreed and it is an advantage that it is less time consuming when paying loans because of informal money lenders is doing house to house collection.

The table 6 revealed the percentage of advantages or disadvantages that there is no need to present any clearance when borrowing money from informal money lenders. 74% of the total respondents agreed, while 18% disagree and 8% answered not applicable. Most of the total respondents are 74% that are participating are agreed, and it is their advantage that their no need to present any clearance and business papers when borrowing money.

**Problem No.3 what are the problems encountered by the retailers when borrowing money from the informal money lenders?**

**Table 3**

<b>PERCENTAGE</b>	
<b>ADVANTAGES</b>	<b>STRONGLY DISAGREE</b>
1.Higher interest rate compare to banks	54%
2.More prone to bankruptcy because of day to day basis of collection	26%
3. Difficulty in paying borrowed money	20%
<b>TOTAL PERCENTAGE</b>	100%

The table above illustrated the problems encountered by the micro-entrepreneurs when borrowing money from the informal money lenders. 54% of the respondents said that the higher interest rate compare to banks is the number one problem that they encounter when borrowing money , 26% of the respondents said that they can be prone to bankruptcy because of the day to day basis of collection and the least is 20% which is difficulty in paying borrowed money.



## CONCLUSIONS AND RECOMMENDATIONS

1. Based on the accumulated and interpreted data given by the respondents using the questionnaires on the above mentioned study, we found out that the money lending business is a good source of capital to start a new business.
2. We also found out that it is easy to borrow money from informal money lenders even if proper agreement.
3. In terms of interest rate, informal money lenders are having higher interest rate compare to the banks and other formal institution.
4. There is no such document needed to be presented when borrowing money from informal money lenders.
5. Most of the respondents are under the age bracket of 21-30 years old who borrows money from informal money lenders.

## RECOMMENDATIONS

1. When starting up a business still the best way to use ones own capital.
2. Based on our research informal money lending has the higher interest rate compared to the banks but informal money lending has the easiest way to borrow money.
3. Money lending business plays an important role in the Philippine Economy because being the one who infuses capital to micro-entrepreneurs; it helps the country in reducing unemployment rate.
4. Using the borrowed money from “5-6” as an alternative source of capital, the less fortunate or below poverty line family may start their own small scale business in public market areas.
5. We recommend that do not always borrow money from informal money lenders if you don’t have the ability to pay them in day to day basis of their collection.

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