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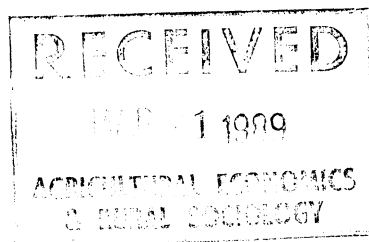
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The Philippines**

by

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by

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Introduction

Recently informal finance--transactions that occur outside the purview of government regulators--has attracted increasing attention by policymakers as well as researchers (e.g., Chandavarkar, Gbate, and Portes and Sassen-Koob). In part, this attention springs from the disappointing performance of government and donor-supported financial institutions in providing sustained services to women, to poor people, to micro enterprises, to small farmers, and to private firms. Various forms of informal finance continue to furnish most of the financial services used by these individuals and firms. Not only do informal intermediaries provide services to borrowers and savers not reached by formal lenders but such intermediaries also appear to be more resilient amidst economic adversity than are their formal counterparts.

Although many government- and donor-assisted banks and cooperatives are now essentially bankrupt in countries as disparate as Bangladesh, Bolivia, Cameroon, Niger, and the Philippines, variegated webs of informal finance flourish in most nooks and crannies of their economies. The popularity and persistence of informal finance raises question about the relevance of mythical labels--e.g., the rapacious moneylenders--so often attached to informal intermediaries. Why can informal finance provide sustained financial services

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to so many people who are beyond the reach of formal finance? Should the informal financial system be penalized and prosecuted, promoted and perfected, studied and emulated, or simply ignored?

Background on the Philippines

Questions about informal finance are particularly germane in the Philippines, where there has been a severe contraction in formal finance, especially in rural areas, since the early 1980s (Blanco and Meyer). More than half of the Rural Banks in the country are insolvent. The other major channels for government and donor loans to agriculture--the Philippines National Bank, the Land Bank, and various development and commercial banks--are also much less able and willing to serve the financial needs of rural people than they were 10 years ago. Burdensome foreign debts and economic stress in the economy have forced the government and donors to sharply contract the funds they provide through the Central Bank via rediscount lines to the formal rural financial system. Because of widespread loan default on formal rural loans over the past decade or so, many former borrowers as well as lenders are no longer creditworthy. The recent collapse in the formal rural financial system is reminiscent of the disintegration of the farm cooperative credit system in the Philippines during the 1950s and 1960s (Sacay).

Recent research on credit use by Filipino farmers shows that more than three-quarters of their loan volume is now provided by informal sources. Larson, for example, reports finding bank loans constituted only about 5 percent of the credit used by commercial corn farmers in Mindanao. Recent research by the Agricultural Credit Policy Council shows that only about one-sixth of the farmers in the Philippines currently have some access to formal loans (Agabin et. al., Tolentino). To the extent that Filipino farmers have

sustained their production during the past few trying years, they have largely relied on self financing or on various forms of informal finance: traders, merchants, dealers, peddlers, loan brokers, friends and relatives, people who accept pawned items, and rotating savings credit associations (paluwagans).

Research Objectives

Recent research on pawnbrokers and paluwagans showed these forms of informal finance were extremely popular among low- to middle-income people in urban areas near Manila (Lamberte, Lamberte and Jose). The primary objective of our research initially was to see if paluwagans and pawning were important activities in rural areas. After beginning the study we expanded the analysis to look at several other types of informal finance that were prominent in the study area: loans provided by peddlers and the operations of informal lotteries. In addition, we were also interested in documenting the types of financial services provided by informal finance and in determining the motives people had for offering and using these services. Beyond describing these systems, we were also interested in the lessons that successful informal finance might provide for formal finance. Are informal financial systems providing services and using techniques for serving the poor that might be grafted onto formal financial systems to improve their performance?

Description of the Study

As can be noted in Figure 1, the area studied included two rural barangays (Sto. Domingo and San Antonio) and two marketplaces in Bay, Laguna.² The

²A barangay is equivalent to a barrio or village. In the Philippines it is the smallest political unit.

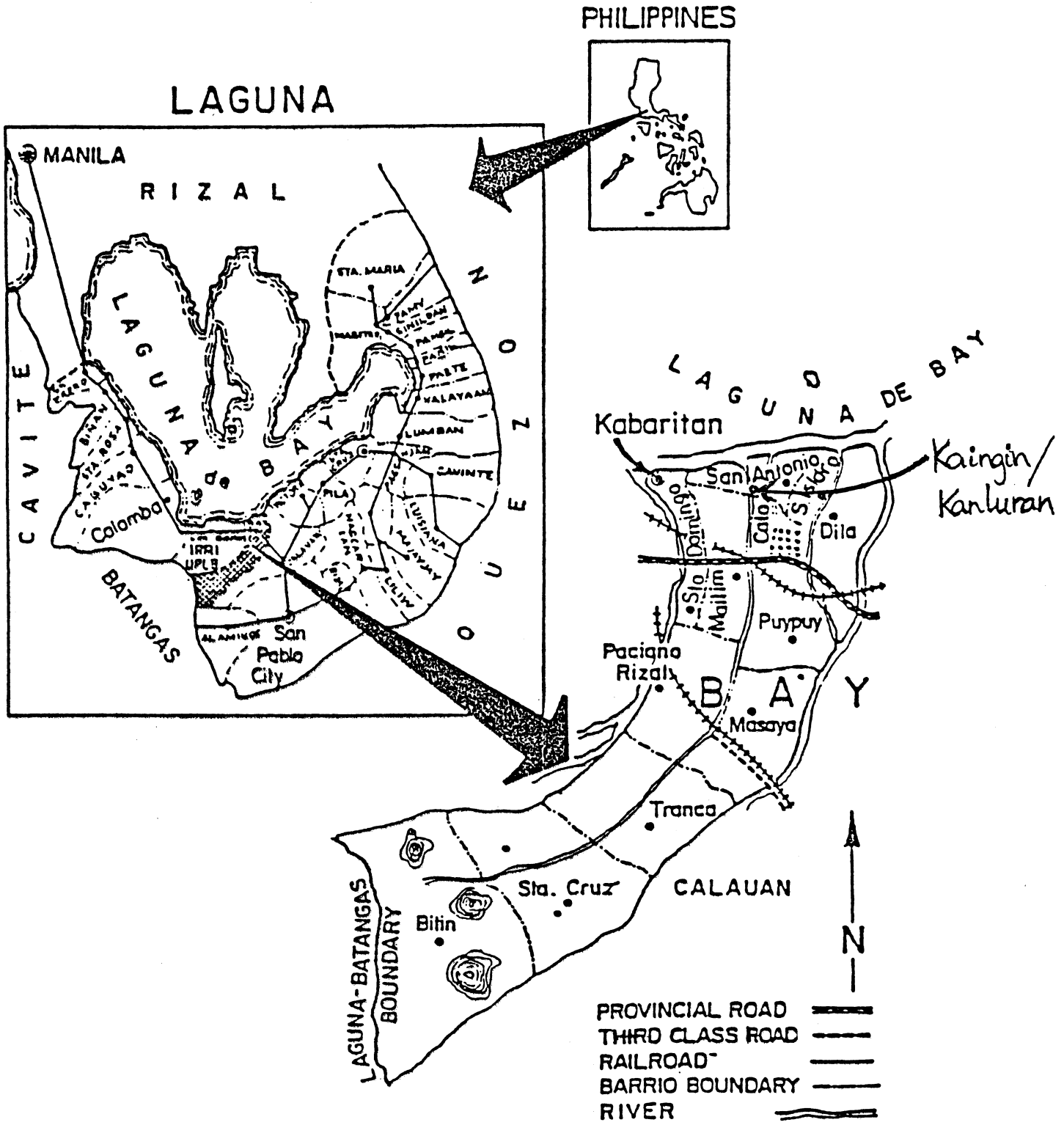


Fig. 1. Location Map of Study Area

poblacion of Bay is located 69 kilometers from Manila.³ Lying to the south of Bay is Los Baños, a university town and the home of the International Rice Research Institute, and to the north are the more commercialized towns of Calauan and San Pablo City.

We collected information through surveys of rural households and market vendors and also by case studies. Individuals and households surveyed were selected by random sampling. In Sto. Domingo, the southernmost barangay, the study concentrated on households in the lakeshore sitio⁴ of Kabaritan; in San Antonio, the barangay located to the north, the study focused on households in two adjacent puroks,⁵ Kaingin and Kanluran. A total of 65 households were surveyed in the two areas.

We also interviewed a random sample of 20 vendors operating in two marketplaces: the Bay Public Market, which is the main or central marketplace, and the Calo Market (also referred to as talipapa), which is a secondary or peripheral marketplace. Table 1 presents a summary of the total population and sample size in each of the study sites and for each of the surveys.

In addition, we completed eight representative case studies of individuals who were participating in the major forms of informal finance that were the focus of our study. These case studies are presented in Appendix A.

Study Areas

Kaingin and Kanluran of Barangay San Antonio are located only 1.5

³A poblacion is the town or municipal center.

⁴A sitio is a geographical or social subdivision of a barangay.

⁵A purok is a smaller subdivision than a sitio--more of a social/economic unit for the purpose of accomplishing community objectives.

kilometers from the poblacion of Bay and are easily accessible from the national highway via a cement road (Fig. 1). The houses are a few meters apart and are often separated by rice fields or fish ponds. This contiguous area is

Table 1
Total Population and Sample Size by Area

Area	Total Population	Sample Number
Calo Market	12 stalls	5 stalls
Bay Public Market	60 stalls	15 stalls
Kabaritan	189 households	35 households
Kaingin/Kanluran	182 Households	30 households

the most highly developed portion of San Antonio and is where most of the stores in the area are located. Moreover, although the population is still predominantly engaged in farming, a large number of San Antonio's professionals and other affluent residents live in this small rural community.

On the other hand, Kabaritan of Barangay Sto. Domingo is located 3 kilometers from the poblacion and is connected to the national highway by a narrow feeder road. The rice fields and fish ponds are concentrated in the central portion of the barangay toward Tabon, the sitio closest to the national highway. Kabaritan has a small school that offers grades I through III. Completion of primary education is pursued at the main public school in Tabon where the health center is also located. Kabaritan is also an area where a number of the small land owners were beneficiaries of land reform in 1974.

As of 1986, the average household size was nearly the same for both study areas, i.e., 5.1 for Kaingin and Kanluran and 5.2 for Kabaritan. Also, in both areas the predominant occupations are farming, fishing, and fish-pond maintenance. Additional income is derived from duck-raising, broom-making, on-

farm labor, off-farm employment, and trade. A relatively recent phenomenon is the increase in the number of contract workers from the area who are employed in the Middle East.

As for the marketplaces, the Bay Public Market is located in the poblacion close to the municipal hall and the Rural Bank. The Calo talipapa is located in one of Bay's barangays that is close to the national highway. The Bay Public Market has about four times as many stalls as the Calo Market. Both have a wet market section and a dry goods section, although there is no sharp delineation between the two. A customer can buy almost all the basic foodstuff from the Calo Market, but the Bay Public Market also carries agricultural supplies, animal feeds, medicine, clothing, gift items, and some native handicrafts.

Methods Used in the Study

Each of the study areas was first visited in October 1988 to gather information about people's participation in rotating savings and credit associations (paluwagans), pawning and pawn brokerage (sanlaan), installment purchases (pahulugan), informal lotteries (jueteng), and other forms of informal and formal finance. Unstructured interviews served as the basis for framing survey questions and helped to identify individuals whose involvement in the informal sector as organizers, financiers, brokers, and collectors made them promising candidates for case studies.

The questionnaires used in the surveys, comprised mostly of open-ended questions, were pretested during November 1988 in areas and marketplaces outside the study areas. With some modifications, the interview schedule was administered to a random sample of households or individuals from each of the sites during December 1988: every fifth occupied house in Kaingin; Kanluran,

and Kabaritan; every fourth occupied stall in the Bay Public Market; and every other occupied stall in the Calo Market.

Representative case studies were accomplished by observing and querying people actively involved in informal finance. A loosely structured interview schedule was used to elicit information after the consent of the key informants was obtained.

Research Findings

Prominent Forms of Informal Finance

Most previous rural studies in the Philippines showed that loans between friends, relatives, or neighbors (utang) were an important form of informal finance. We decided, however, to focus instead on other prominent forms of financial intermediation, feeling they might provide more valuable insights for policymakers. The several forms of informal deposit and/or loan arrangements mentioned repeatedly in casual interviews with residents of Kaingin, Kanluran, and Kabaritan as well as with vendors of Bay Public Market and Calo Market are described in the following sections.

Jueteng or Informal Lottery. This is an informal game of chance in which people bet a flexible amount, usually in the range of 5 centavos to 20 pesos. Bets are solicited by a ubiquitous collector, generally a resident of the community, who offers leads on winning numbers and coaches his or her clients on how to decipher cues from dreams, license plates of passing vehicles, dates of important occasions, and other signs. Draws are done three times a day, and winners are announced immediately after the draw. In addition, the amount of each bet is flexible and within virtually everybody's reach so the jueteng ticket is a product that appeals to a large number of rural people, even the poorest.

Pahulugan or Installment Buying. Pahulugan is an easy way of acquiring popular merchandise, such as clothing or household items, offered by vendors and itinerant merchants, locally called Batangueñas or Bombays. Collections are done regularly (daily, weekly, or bimonthly), and informants report that it is a very convenient arrangement since the payment of the daily or weekly installment is hardly felt and before buyers fully realize it they have paid for the item in full. With one Batangueña, at least, the installment rate is not fixed, so that buyers can give any amount they are capable of paying on collection day. With the typical Bombay, the rate of installment is agreed upon before the merchandise is given, but the repercussion of missing an installment is limited to mild castigation by the lender. For many low-income rural farmers and fishermen, pahulugan is the only way of acquiring desired consumer items that are relatively costly.

Paluwagan or Rotating Savings and Credit Associations. Such associations are an arrangement whereby small groups of housewives, work or business associates, or even school children can save money for a special occasion, an intended purchase, or additional capital for business. These types of groups are found in many low-income countries and carry the generic name of ROSCAS (Bouman). Generally, the pot (in cash or in kind) is circulated every 15 days, and the winner receives the accumulated contributions of all members of the paluwagan within the 15-day period. The organizer is usually a woman and her role is considered important since she is the one who collects contributions, exerts pressure to extract savings, and provides a guarantee for errant members. Because of her central role, she is usually allowed compensation including getting the first turn, receiving a pot without having contributed, and/or receiving as much as a 30 percent commission from members when they

receive their pot. (For descriptions of ROSCAS in other countries see: Adams and Canavesi, Graham and others, Haggblade, Nayar, Seibel and Marx, and Wo.)

Sanlaan or Pawning. Sanlaan occurs when jewelry, appliances, land rights, or land titles are pawned between friends (with the pawned item serving as collateral for interest-free loans), between a client and an unknown financier through the intermediation of an informal pawnbroker who receives a commission for the transaction, or between a client and a formal pawnshop that extends loans in the amount of about 35 percent of the appraised value of the item offered for pawning. Using an informal pawnbroker is usually preferred because less embarrassment is associated with this method than with pawning items more publicly in a pawnshop (Bouman and Houtman).

Other forms of Informal Finance. Savings and credit arrangements that are local, personalized, and usually based on expedience also constitute informal finance. In the simplest form, it may consist of a living "piggy bank" or paiwi. This involves giving a piglet to a friend for surrogate care with the understanding that when the piglet matures and farrows, there will be a fifty-fifty sharing arrangement of the litter between lender and pig raiser. In an informal arrangement called patago, personal savings are deposited with a friend so that they will be accessible for emergency needs but inaccessible enough to discourage the saver from dipping into them when the need is not grave. From the local perspective, this arrangement also helps savers elude bad omens associated with local folklore: If there is money in the house an emergency or illness will strike, thus necessitating that hoarded funds be spent.

So that savings will not be idle and also to accommodate farmers who do not have enough capital for inputs at planting time, surplus funds are also lent on a paupahan basis. This means that a loan extended at planting time is

to be repaid at harvest time in cash along with an agreed upon amount of rice as interest--the amount of implied interest paid being highly variable. Besides local farmers, landlords and traders also make loans on a paupahan basis. Credit may also be in the form of "5/6", an arrangement that earns 20 percent interest for the lender over the life of the loan, often a planting-to-harvest season. (For more details on these systems see Geron; Esquerra; Mangahas and others; Sacay, Agabin, and Tanchoco; Serrano; and Technical Board for Agricultural Credit.) This form of credit is offered by market vendors and some local elite. The Bombays, in contrast, extend loans to market vendors at 10 percent interest per month.

The various forms of informal savings and credit arrangements in rural areas share some common characteristics. Contributions in the case of paluwagans, bets in the case of jueteng, and installments in the case of pahulugans are small, affordable, and usually flexible. A personal touch prevails in the transactions between organizers, collectors, merchants, or moneylenders and their clients. It is permissible, on occasion, to skip installment payments without dire consequences. Turns at receiving the pot in paluwagans can be arranged to accommodate a member who has a brush with misfortune. Forfeiture of pawned property can be averted by requesting an extension of the grace period from the financier. Lastly, processing usually takes very little time and effort and involves very small transactions costs on the part of the borrower or depositor. Perhaps as a result of all these advantages, patronage of informal finance systems is widespread and default on obligations is quite rare.

Relative Importance of Various Forms

From the results of our surveys (Table 2), it appears that the most important form of informal finance among those selected for study, in terms of number of people who participate, is the informal lottery and the least important is pawning. The people interviewed explained the popularity of lotteries by citing how little money it takes to indulge oneself and to try one's luck and, conversely, how difficult it is for most of them to participate in pawning because they have nothing of value to pawn. Even for those individuals with assets such as appliances and land rights, pawning is considered only as a last resort since there is a popular belief that when one starts pawning it is difficult to stop until one day the pawner finds himself without property. Pawning, from the local perspective, is justified only by special needs (emergencies, illness, children's education) and by business opportunities.

Table 2
Participation in Various Forms of Informal and Formal Finance
(in percentages)

Form	Never	Previously, but no longer	Only recently	For a long time
Paluwagan	74	14	8	4
Sanlaan	78	8	9	5
Pahulugan	46	28	8	18
Jueteng	21	3	5	71
Other informal	39	11	10	40
Formal deposits	35	27	5	33
Formal loans	74	18	6	2

In between the highest and the lowest extremes, the other deposit and loan alternatives can be ranked according to degree of participation as follows: formal savings (second), other forms of informal finance (third), pahulugan (fourth), formal credit and paluwagan (tied for fifth), and sanlaan (sixth).

It is surprising that even during the recent period of economic difficulties, many respondents have participated, or are participating in, formal and informal savings but not in formal credit and pawning. Other options in the informal sector apparently meet their credit needs; personal loans from friends, neighbors, and relatives; cash advances for rice at harvest time; and 5/6 from local moneylenders.

The dropout rate, as reflected in the second column of Table 2 (participated "previously, but no longer") is highest for pahulugan and lowest for jueteng. The decline in the popularity of pahulugan is a relatively recent phenomenon. Many respondents attribute this trend to recent hard times. They would still have liked to purchase items on installment, but it is difficult for them to keep up with the daily or weekly payments and consequently the goods offered are considered more and more as luxuries that people can do without. A confounding factor is the fading away of the persistent and patient Bombays from the scene as the Commission on Immigration and Deportation clamps down on these immigrant peddlers.

The rate of recruitment, as reflected by the percentage of total population that participated "only recently," is highest for other forms of informal finance (examples of which were given in the previous section) and lowest for formal savings. Finally, persistence as reflected in the last column of Table 2 is highest for jueteng and lowest for formal credit. The low rates of recruitment for formal savings and of persistence for formal credit compared to informal finance raise questions about the suitability of banking services in meeting local demand for financial services.

Broken down by study area for purposes of comparison, the results show that paluwagans are more common in marketplaces than in barangays (Table 3). Comparing participation in the two barangays, paluwagans appear to be more

popular in Kaingin and Kanluran than in Kabaritan. As pointed out earlier, the former is more developed than is the latter and has a larger population of store keepers, professionals, and other regular income earners. This would assure not just a supply of willing clients and a demand for cash or consumer goods but also a supply of qualified organizers and more regular flows of income for saving.

Table 3. Participation in Paluwagens by Study Area
(in percentages)

Area	Never	Previously, but not now	Only recently	For a long time
Calo Market	40	20	20	20
Bay Pub. Mkt.	60	13	13	14
Kabaritan	86	9	6	0
Kaingin/Kanluran	74	20	7	0

Participation in sanlaan (Table 4) likewise follows the same pattern: the more developed the area, the greater the participation. This could be partly because people in more developed places have more property to pawn, not to mention more economic needs and opportunities, but this is perhaps also attributable to the fact that in more accessible areas there is greater

Table 4. Participation in Sanlaan by Study Area
(in percentages)

Area	Never	Previously, but not now	Only recently	For a long time
Calo Market	80	0	20	0
Bay Pub. Mkt.	73	0	20	7
Kabaritan	80	9	3	9
Kaingin/Kanluran	77	13	10	0

penetration by pawnbrokers. People who pawn prefer to deal with pawnbrokers rather than pawn shops because their services are more accessible and discreet.

In jueteng, participation in all study areas is widespread and shows a remarkable degree of persistence (Table 5). Moreover, while the observation of greater participation in marketplaces than in barangays also holds true for jueteng, the ranking within categories is reversed--jueteng appears to be more popular in less developed market places and less developed sitios. Apparently, jueteng fills a gap left by other finance arrangements. It provides leisure, amusement, and opportunity inexpensively.

Table 5
Participation in Jueteng by Study Areas
(in percentages)

Area	Never	Previously, but not now	Only recently	For a long time
Calo Market	0	0	0	100
Bay Pub. Mkt.	0	0	0	100
Kabaritan	20	3	13	67
Kaingin/Kanluran	33	3	6	74

Participation in pahulugan (Table 6) is less than in jueteng but is greater than in either paluwagan or in sanlaan. The same pattern prevails as in jueteng with respect to the relationship between degree of participation and relative development of the study area. Furthermore, it appears that there has been a greater dropout rate than recruitment rate for pahulgans, particularly in the barangays. One factor that may explain this is the decline, starting around 1985, of the fish pond industry as a result of the glut in tilapia fingerlings. Prior to this period, the boom in growing fingerlings in the nearby lake led to a feeling of affluence among the residence of the lakeshore towns. As a result of the decline in affluence when all the lakeshore

communities caught on to the technology of raising fish fry and consequently flooded the market with an oversupply of fingerlings, the demand for consumer goods handled by itinerant merchants declined.

Other forms of informal finance are also relatively important (Table 7); they rank third among all the savings and credit arrangements available. In

Table 6
Participation in Pahulugan in Study Areas
(in percentages)

Area	Never	Previously, but not now	Only recently	For a long time
Calo Market	20	40	0	40
Bay Pub. Mkt.	33	14	13	40
Kabaritan	51	29	9	11
Kaingin/Kanluran	50	33	7	10

all study areas, the recruitment and dropout rates for other forms of informal finance are balanced and persistence is also relatively high. This is because the services provided by these forms of informal credit are timely (offered at planting time and collected at harvest time or just in time for fiestas, Christmas, or graduation), accessible (little travel or processing time involved), and personalized (in some cases, potential creditors are actually approached by moneylenders). Likewise informal savings arrangements, according to respondents, have faster rates of turnover, are more familiar, and are also more compatible with cultural beliefs than are deposits in banks.

Participation in formal deposits is related to the distance of the study area from the banks. Eighteen of the twenty people interviewed who were operating market stalls had deposit accounts in a bank, whereas only about one in five of the rural households interviewed had had a bank deposit account recently. About one-third of the rural households had had a bank deposit

Table 7
Participation in Other Forms of Informal Finance in Study Areas
(in percentages)

Area	Never	Previously, but not now	Only recently	For a long time
Calo Market	20	20	20	40
Bay Pub. Mkt.	53	7	7	33
Kabaritan	40	11	9	34
Kaingin/Kanluran	30	10	10	5

account in the past but no longer had one. The fact that every respondent in the Bay Public Market has participated in formal deposits and that persistence is high (80 percent) can be attributed not only to proximity but also to the fact that bank representatives permeate the area daily, soliciting deposits and collecting payments for loans. In addition to distance, the high dropout rates and low recruitment rates in the barangays can be accounted for by the decline in the fish pond industry. This is borne out by respondents' comments that they do not take the trouble to deposit in banks because there is nothing to save, particularly in times of economic difficulties. What few funds they can set aside after spending for basic necessities can be more conveniently handled through informal arrangements.

Although participation in formal credit is much lower than in formal deposits--because of most people's aversion to the tedious process of loan negotiation with banks--it also appears to be a function of distance from banks. None of the rural households had a formal loan at the time of interview, and only one of the market vendors had a formal loan. About 15 to 20 percent of the vendors and households, however, had had at least one formal loan in the past. The rise and later decline in the fish pond industry in the area likely explains a major part of this earlier borrowing. The majority of the people who formerly used some formal loans have been forced to turn to

other, possibly more accessible and responsive, forms of informal loans or to rely on their own funds.

Local Opinions About Various Forms of Finance

Why do people participate in some forms of savings and credit systems and not in others? What problems do they encounter and how do they assess the advantages and disadvantages of participating in various types of informal and formal finance?

To answer these questions, respondents were queried as to their reasons for participating in various forms of finance. Of the participants in paluwagans, 41 percent answered that they wanted to be pressured to save even if they had no specific purpose or expense in mind, 36 percent responded that they were preparing for an intended purchase such as a motor for a fishing boat or iron sheets for roofing, 9 percent wanted to set aside money for a special occasion such as Christmas or for a fiesta, another 9 percent were preparing for a yet undefined emergency, and 5 percent saw paluwagans as an additional source of income through being organizers. Most of the organizers and members (68 percent) declared they had not encountered any problems with paluwagans, 14 percent had experienced occasional difficulty in collecting or maintaining contributions, 14 percent complained about occasional delays in awarding of the pot, and a small number of the members were disillusioned when they realized the disproportionate share received by the organizer.

On the other hand, most people (80 percent) pawned their possessions only when they encountered serious financial problems. Other reasons cited for pawning were to finance pre-travel expenses of migrant labor (10 percent) and a combination of factors including the need for cash to finance children's education and to pay for expenses associated with celebration of special

occasions (10 percent). As a corollary, it is interesting to note that the reason given by most pawnbrokers for accepting a pawned item is that they took pity on the person in need (45 percent). In some cases, the pawned item was accepted simply as an assurance that the interest-free loan would be repaid (25 percent); in other cases pawning was regarded as a way of earning interest (22 percent). Eleven percent of the respondents cited a combination of the above reasons for being financiers. Most people who participated in sanlaan encountered no problems (89 percent) whereas 11 percent reported difficulty in repaying the loan as scheduled.

Less serious reasons were advanced for participating in the informal lottery. Forty-five percent bet on jueteng to try their luck; 22 percent saw betting as a recreational activity. Some people are drawn into the game by seeing their neighbors bet and sometimes win (14 percent) and others, particularly market vendors, bet just to maintain smooth interpersonal relations with the ticket seller (6 percent). Thirteen percent of the respondents offered a combination of the above reasons. A majority of jueteng aficionados encountered no problems (96 percent). A few complained about some lapses of the kubrador, such as reportedly entering a wrong number so that when their actual choice won they forfeited their winnings (1.5 percent), the submission of their bet being delayed so that none of the numbers in it were considered in the final draw (1.5 percent), and the money not being given to the winner (1.5 percent).

With respect to pahulugan, nearly half of the respondents cited their inability to make cash purchases as their main reason for buying on installments. A related motivation, i.e., to gradually accumulate items without feeling financially burdened, was given as the primary reason by 28 percent of the respondents. Eight percent pointed to the advantage of being

able to use an item without actually having paid for it, and 18 percent gave a combination of reasons, including the inclination to accommodate merchants who offer goods on easy installment terms and the propensity to imitate others who obtain goods through pahulugan. Of those who had patronized pahulugan, 96 percent reported having encountered no problems at all and 4 percent responded that the only problem they had experienced was being unable to meet the scheduled payments.

For those who practice informal savings through alkansya, patago, paiwi, or paupahan, the most frequently cited motivation is to save for an unspecified future use (29 percent). Twenty-five percent put aside some amount when they have surplus funds, for example, during harvest time or after a profitable day at the market. Another 25 percent make it a habit to save money in preparation for expenses associated with special occasions. Nine percent use informal savings arrangements so they can get larger returns on investments. The rest of the respondents indicated that they rely on informal savings in order to accumulate capital for business (4 percent), to conform to local beliefs and customs governing savings (4 percent), and to await the increase in value of old coins (4 percent).

On the other hand, people secure informal loans mainly during times of financial distress (60 percent), a condition referred to as gipit (literally, in a tight situation; colloquially, in a fix). An old saying goes "kapag gipit, kahit sa patalim kumakapit": when a person is in a fix he will embrace even a sharp knife. The other 30 percent borrow from the informal sector to raise business capital or to buy work-related implements. Still other borrowers secure informal loans because they are readily available (3.3 percent) and for a combination of reasons including the need to finance pre-travel expenses of migrant labor (3.3 percent). A majority of those who

secured informal loans indicated that they encountered no problems (94 percent); only 5 percent complained about high interest rates on these loans.

It is interesting to note that saving is motivated by the same basic reasons, be it in the informal or formal forms. Respondents who deposit in a bank cited the need to save money for unspecified future needs (44 percent) and in preparation for emergencies (19 percent). Fourteen percent indicated that they put their money in a bank to save for their children's needs, and 5 percent deposited to augment their business capital. Only a small minority mentioned advantages peculiar to saving in a bank, such as: money would be less accessible and therefore less easily spent (4 percent), and banking personnel are persistent in soliciting savings and in making banking services easily available to them (4 percent).

To pinpoint some of the salient differences between informal and formal finance, as perceived by the local population, respondents who had never used banking services were asked why. Seventy-five percent answered that they earn barely enough for them to survive on and therefore there was really nothing to save; 15 percent responded that although what they made is often sufficient, they have no regular source of income so it is more convenient to use informal arrangements. Others mentioned that they are not accustomed to saving in a bank (4 percent) and that money in a bank earns very low interest (4 percent). Two percent said they preferred to keep money within easy reach.

Few of our respondents thought of going to banks for loans when they are in financial distress. Rather than as a remedy for pressing economic difficulties, most respondents who secured bank loans did so to take advantage of opportunities to improve their economic well-being. Seventy-seven percent of respondents having bank loans used them for additional business capital, 14 percent to renovate or construct their houses, 4.5 percent to finance

children's education, and 4.5 percent to defray costs of pre-travel preparations for overseas workers

Slightly more people encounter problems with formal loans than was true of informal loans and the problems encountered were of greater variety. Eighty-nine percent of the formal loan respondents reported no problems compared to 94 percent who indicated having encountered no problems with informal loans. Three percent complained that formal loan processing takes too long, another 3 percent complained that interest rates were too high. The rest of the respondents remarked that it is difficult to make payments on schedule (1.5 percent), that they find bank repayment requirements were confusing (1.5 percent), and that they are put off by having experienced bank closure without notice (1.5 percent).

The rural populations studied apparently have strong motivation for saving and for taking advantage of economic opportunities. They prefer alternatives that are personalized, discreet, flexible, accessible, and familiar. There is no dearth of indigenous savings and credit arrangements that cater to their needs and accommodate their preferences. With regard to the formal sector, people chose banking services that are within easy reach either because of proximity or because bank representatives go out of their way to make banking services available to them. Conversely, they are discouraged by intricate procedures, slow returns, confusing regulations, and instability of some rural banks and cooperatives.

Conclusions

A rich variety of informal finance takes place in the area of our study, the majority of these arrangements are carried out by and for low-income people, and women play a large role in many of the transactions. We heard few

complaints about these systems. Most of the transactions are small, cover brief time periods, and include surprisingly few cases of default. The widespread popularity of informal lotteries shows that Filipinos enjoy gambling--a trait they share with people of many nationalities. The variety of overlapping forms of informal finance and their partial ties to formal financial arrangements exemplify competitive markets that have few barriers to entry and involve extensive substitutability--conditions not conducive to monopoly profits. Informal financial markets in the area are highly contestable. These markets are also sensitive to overall economic conditions and levels of income. Pawning of small items, for example, becomes more prominent in times of economic stress, whereas the pawning of land and lending by peddlers expands as incomes increase and opportunities open to work overseas. Most of the other forms of informal finance also expand and contract with incomes and commerce.

The relative importance of informal finance in the area appeared to vary in direct proportion to the distance of the business or household from banks, but people of modest means who live just a few miles from banks are largely isolated from formal loans and deposits. Aside from a few market women who had small bank loans, and people living near banks who had moribund deposit accounts, most of the individuals covered by our surveys relied almost exclusively on informal markets to satisfy their financial needs.

Although lending is usually thought of as the main activity of informal intermediaries, we encountered a substantial amount of informal deposit mobilization and informal savings, especially among people with steady sources of income. It is often overlooked that every informal loan requires savings on the part of a lender, even if the loan is handled by a broker. Thus, large

volumes of informal loans are the mirror image of large volumes of informal savings.

We were also impressed by the fact that women play major roles as intermediaries, organizers, and participants in these markets. The case studies showed intermediaries and organizers were largely humble people who acquired their skills gradually through many years of experience, not through formal education. This experience included determining the creditworthiness of their clients, developing financial services that were useful to rural people, learning to evaluate the market value of loan collateral, and providing other services to clients that enhanced scope economies.⁶ Remarkable flexibility and low transaction costs for clients--because financial services are often brought to their door step or are available where they shop--enhanced the perceived worth of informal finance in the eyes of users of these services.

In a broader sense, many forms of informal finance allow relatively poor individuals to accommodate risk and uncertainty (Platteau and Abraham). As Velez-Ibanez and others have pointed out, informal financial transactions often involve an unwritten obligation of reciprocity. People may participate in a paluwagan, for example, because it helps them build goodwill, credit reserves, or creditworthiness that can later be called upon in times of emergency. The design of many of these forms of informal finance allows participants to build this goodwill through a process of gradual steps that may include saving before borrowing, borrowing and repaying small amounts before borrowing large amounts, and a general proving of oneself. Such winnowing and sorting, trial and error, and advancement from small to larger amounts are features of informal finance that allow many people in rural areas to establish creditworthiness through a

⁶Scope economies occur when it is less expensive to provide several services jointly than it is to provide each service separately.

gradual process that is not available to them through formal financial markets. This process is in marked contrast to credit events that sporadically occur via targeted credit programs and banks or cooperatives--a recent example being the Masagana 99 program in the Philippines. These credit events usually ignore creditworthiness in granting loans, consider a loan as an all-purpose elixir for the ills of the borrower, usually end up with substantial loan defaults, and thus destroy rather than enhance the ability of defaulting clients to enjoy regularly access formal financial services, to say nothing about the debilitation of the formal financial system.

It is unreasonable to consider replacing most forms of informal finance with bank services. Still, the sustained coverage of the formal financial system in the Philippines should be expanded to include a much large proportion of the people living in rural areas in the next few years. Only the formal financial system can provide relatively large, long-term loans and provide the liquidity needed for substantial deposit mobilization.

The lessons from this study that might be useful in expanding formal financial services include the following:

1. Substantial demand for short-term small loans is associated with consumer time purchases in rural areas, and formal lenders do a poor job of meeting this need. In higher income countries these consumer-credit needs are often satisfied efficiently by credit cards. Opening pawnshop services in banks and providing more ample bank lending to merchants and others who, in turn, make secondary loans to the rural poor would likely help to expand this type of lending. Most of this secondary lending could be handled by experienced people who are already involved in informal finance.

2. Our study, along with other research recently done in low-income countries, suggests that a substantial demand exists for deposit services in

rural areas. More of this demand might be satisfied by formal intermediaries in the Philippines with appropriate policies, such as interest rate incentives and placing more emphasis on mobilizing deposits by keeping the transaction costs of depositors low. Seeking deposits in central markets and keeping banks open on market days and evening are ways of making deposits more attractive to savers.

3. Many people in rural areas enjoy lotteries, be they legal or illegal. Harnessing some of this gambling incentive to deposit mobilization efforts would be a way of enhancing the attractiveness of deposits for rural people.

4. The incentives to save would also be enhanced if depositors had more assurance that their savings would be a major step in building their formal creditworthiness. This should include the opportunity to receive small, short-term emergency loans.

5. Most importantly, formal finance efforts should be redirected from largely handling funds targeted for specific groups and activities to helping many more of those individuals and firms that are currently outside the formal financial frontier to develop creditworthiness. This must include many of the techniques used by informal intermediaries.

APPENDIX A

CASE NUMBER 1

An Informal Pawnbroker in the Los Baños Area

Aling Nena is a resident of Los Baños, Laguna, and most of the informal pawnbrokers of Bay and Los Baños trace their professional ancestry to her. She is a 51 year-old grandmother with nine children (ages ranging from 8 to 32) and two grandchildren. Her eldest son and daughter have graduated from college, and all but two of her other children are in school. It is her dream that they finish their schooling "so that life wouldn't be so hard on them." With embarrassment she admits to finishing only the fourth grade.

Since her husband earns income only sporadically as a real estate middleman, Aling Nena has been forced to work outside the home to support her family. Before becoming a pawnbroker, she augmented the family income by gathering shellfish along the lakeshore and selling these in local markets. Finding this tedious and unrewarding, she next turned to selling dry goods. Her only capital, according to her, was laway.¹ She would convince merchants to entrust some of their goods to her and then ply her route to sell the goods for cash or on installments. She was in the middle of disposing of two dozen brassieres when she was approached by a Lajera² who offered to lend her for sale several pieces of jewelry strung on a safety pin. She found this much more lucrative than selling underwear and soon branched out to begin buying and selling old coins.

As she became known for dealing in jewelry (alajera) and old coins, some of the people whom she approached as would-be customers offered instead to pawn their jewelry with her. Having no money to offer for the jewelry, what she did

¹Saliva.

²A person who makes and sell jewelry.

was to borrow the pieces offered for pawning and take these to prospective "financiers."³ Along with this, she became keen on getting local leads about who had just sold a cow or a piece of land, including those who had just won a sizeable amount in the local lottery. Almost everyone who had just experienced some sort of windfall was approached by Aling Nena to see if they would be interested in accepting a pawned item.

Soon she was dealing not only in jewelry but also in appliances, in land titles, and in land rights that were being pawned through her intermediation. She continued to operate on very little capital and provided secrecy, a most important service for the people pawning as well as for those accepting a pawned item. For the former, secrecy is a blessing since it is no source of pride to pawn property. For the latter, anonymity eases the social stigma associated with charging interest to someone in dire need. In addition, by serving as a go-between, she facilitated delicate transactions.

According to Aling Nena, people prefer to bring their jewelry to her rather than to a pawnshop because of convenience and also because one can get a bigger loan from individual "financiers" than from a pawnshop. From the former, borrowers can get a loan equivalent to as much as 70 percent of the appraised value of the jewelry, whereas from a formal pawnshop borrowers usually receive only 35 percent of the appraised value.

When jewelry or furniture is pawned to a financier, a contract that need not be notarized is executed to the effect that the person doing the pawning will pay the financier 10 percent interest on the loan every month until the time designated to return the total amount borrowed in exchange for the return of his or her property. Aling Nena receives a one-shot commission of 10

³A term used by pawnbrokers to refer to well-off people who accept pawned property.

some special consideration, she may settle for only a 5 percent commission. In turn, she has the responsibility of seeing to it that interest and, eventually, the loan itself are repaid to the financier on schedule. When the person who pawned does repay the loan on time, and the financier is not interested in repossessing the pawned land, it is also Aling Nena's obligation to find another financier to whom the pawned land can be transferred.

Aling Nena believes that in order to succeed in her trade, she has to have the ability to convince people of the authenticity of the property being pawned and the profitability of the venture for the financier. Thus, she sees to it that land titles are genuine by checking registrations at the Registry of Deeds. She also carries a "test kit," comprising a flat stone and some acid, to test the quality of gold jewelry. Using a bit of folk wisdom, Aling Nena confided that she has a sensitive mole on her knee that reddens as a positive sign that she should clinch a deal. Her pawnbroker friends also revealed, to Aling Nena's consternation, that before approaching an important client she may pop a semiprecious stone in her mouth to enable her to make a smoother sales pitch. They refer to the stone as Aling Nena's anting-anting or lucky charm.

According to Aling Nena, one makes the most of what one has in doing what one has to do. With nine children and a husband without any regular source of income, being a pawnbroker has enabled her to support her family and see her children through school. "Sales talk," face powder, and a lucky stone are her only stock-in-trade.

percent of the amount lent from the person doing the pawning. In the meantime, it is understood that the financier can use whatever is pawned as if it were his or her own. When the time comes for the repayment of the loan, if the person who pawned has not raised the amount equivalent to the loan, the financier has the option of repossessing the item or offering to buy it by adding a small amount to the initial loan.

On the other hand, land pawning is generally done with a notarized contract that states the amount to be repaid and specifies when repayment is to be made. It is understood by both parties that the amount stated includes the loan plus the total interest to be remitted to the financier in monthly installments. Repossession of pawned land is done through court action, usually with a 90-day grace period granted to the one who pawned the land.

In addition to the pawning of land titles, land rights such as tenancy rights and emancipation patents can be pawned as well. According to Aling Nena, many farmers whose adult sons and daughters wish to try their luck abroad as migrant laborers pawn their land rights to pay for pre-travel expenses. Cases of losing land when these farmers are cheated by labor recruiters are not rare. In most cases, the financier for pawned land rights is someone interested in personally working the land. The money lent in accepting land rights earns no interest for the financier, but the right to cultivate and harvest is enough incentive for accepting the pawned use-rights. Most financiers are content just to profit from the produce of the land until the loan is repaid. However, surrender of land rights to financiers when tenants or amortizing owners⁴ can not repay on time also occurs.

As a pawnbroker in these land transactions, Aling Nena usually gets 10 percent of the total amount lent. At times when the person who pawned asks for

⁴Former tenants who are beneficiaries of land reform.

CASE NUMBER 2

A Lender Who Deals in Pawned Land

Mang Nardo, the eldest of four sons of a farming couple, grew up in Alitagtag, Batangas. He settled in Bay, Laguna, in 1955 after he married a native of Barrio San Antonio. Mang Nardo's industriousness, coupled with his wife's frugality, enabled them to sustain their ambition of sending all their six children to school. Their four elder children have graduated from college while their two youngest children are still in school. Presently, they live in a modest, semiconcrete bungalow at the entrance of Barrio San Antonio and are respected elders in the community.

An experienced hand in farming, Mang Nardo recognized opportunity knocking at his door when a family friend offered to pawn 2.5 hectares of farmland to them for 23,000 pesos. Because their son had been working abroad as a nurse, Mang Nardo and his wife had saved enough money to make the loan from the son's remittances home. According to the pawn agreement, Mang Nardo could cultivate and harvest from the farmland as if it were his own for three years and then, at the end of that period, their friend would pay back the 23,000 pesos they had lent him without interest. The use of the land for three years replaced interest payments.

Recently, a friend's brother offered to pawn another small plot of land to Mang Nardo. Since the parcel is adjacent to the one they are already cultivating, Mang Nardo accepted the offer. The terms of this agreement are somewhat different; there is no specified time of repayment on the loan. The friend's brother can pay back the 8,000 pesos he borrowed at any time. In the meantime Mang Nardo and his family can profit from the cultivation of the land

while giving the landowner-borrower a share of 3 cavans of rice per harvest as rental payment.

So far, Mang Nardo has not encountered any serious problems in accepting pawned land. These transactions are always notarized, and the terms of the loan are agreed to by both parties. The individual who offers to pawn land receives a loan and Mang Nardo and his family receive access to land, a significant factor in realizing their ambitions for a better life.

Aside from his lending initiatives, Mang Nardo has also used the Cooperative Rural Bank established by the Samahang Nayon in San Antonio. He was one of the organizers of the bank, in fact. The bank was started by collecting 5 percent from the earnings at harvest time of each farmer in the barrio until the cooperative bank accumulated 50,000 pesos. Then they applied to the Central Bank for a loan of 1 million pesos. After their loan application was approved, the Cooperative Bank allowed each member the right to borrow from the fund for farm inputs. According to Mang Nardo, the requirements for making a loan are simple enough for the local farmers to understand. Only the signatures of three other members of the cooperative are required, and interest rates on loans are low.

CASE NUMBER 3

A Manager of Paluwagans in Bay

Consuelo is 33 years old, married, and a mother of a three-year-old son. Her parents are emancipated tenants in Kabaritan, among the first to have finished their amortization payments to the Land Bank. Through their hard work and efficient management they were able to support all their nine children, including Consuelo, through college. Consuelo was employed after graduation, but marriage and motherhood as well as the scarcity of attractive jobs in her career field caused her to devote most of her time to selling merchandise. Along with her husband, who also manages their fish ponds, she tends a small sari-sari¹ store. At the same time, she is an agente² for cosmetics, underwear, T-shirts, candles, and any merchandise she can market on a consignment basis. It is only at special occasions such as Christmas that she uses her own capital to purchase clothes from Baclaran and Divisoria³ to be sold by installment payments to her neighbors. She considers this as a way of helping them get access to some of the niceties in life even though they have not set aside enough money to make cash purchases.

Because of her various buy-and-sell activities, she developed and nurtured relationships with many regular clients. Possibly due to her reputation and contacts she was approached by Anita from Tabon (the most central sitio of Barrio Sto. Domingo) to sell her wares through paluwagans. The idea of paluwagan was not entirely new to Consuelo. During her college and early

¹A variety store in a barrio that sells small amounts of a number of household needs.

²An all around middleman.

³Urban market places where dry goods can be bought cheaply or on a wholesale basis.

career days, she managed school and office paluwagans. In these paluwagans-- which were mainly aimed at forced savings--she took care of collecting and recording but she also contributed her share and was treated like other members. Sometimes she had the benefit of receiving the first pot but this was not always the case, and everything was done in the spirit of fun.

When approached by Anita, Consuelo remembered her pleasant experiences and responded positively to the offer. She was to recruit 10 members willing to contribute 60 pesos each on the fifteenth and thirtieth of each month (or achieve this through daily installments), handle the record keeping and the money collection for Anita, and without contributing, receive a free set of dinnerware just like the regular members. Each member, in rotation, would take turns getting her dinnerware set on the fifteenth and thirtieth until, by the end of five months, everybody had received a set. Then a new household item would be offered--for example, a set of pots and pans--and the rotation would start again. With each rotation, the membership could change in composition as some old members withdrew and new ones were recruited to take their place.

After Consuelo and Anita tired of their commodity type of paluwagan, Consuelo again devoted full time to her sari-sari store and consignment/installment ventures. But just a few months later she was approached by a group of female fish vendors to manage their paluwagan. They were willing to let her receive the first pot without contributing any share-- an arrangement referred to as patay ang isang butas⁴ as long as they could be sure that there would be someone who could make them save regularly and also be trusted with funds. In accepting the responsibility she offered to accept only half what a regular contributing member would get. Two such paluwagans

⁴Literally, an arrangement wherein one hole is dead or useless for the contributing members.

operated simultaneously under her management, both with fish vendors as members. In one, 10 members contributed 10 pesos daily. Every fifteenth day, one member would receive 1,500 pesos. In the other, 10 members contributed 20 pesos each day, and a pot amounting to 2,000 pesos was distributed every 10 days.

Although, as an organizer, she received only half of the regular pot, Consuelo felt satisfied that she helped the women save by managing their paluwagan. She witnessed the women using the money they received during their turn for renovating their houses or repairing their fishing boats, and with their material advancement she felt compensated for all her efforts. She also observed how, in cases of emergency, the women willingly switched places so that the members affected could receive their pot when they needed it most. The women vendors, in turn, were satisfied with Consuelo's management because she could be depended upon to distribute the pot on time. If circumstances did not permit this and a delay was unavoidable, Consuelo made it a point to forewarn the members of the postponement and clearly explained the reason for the anticipated delay.

The responsibility of meeting all the members' expectations sometimes bothers Consuelo so that she is currently having second thoughts about organizing another paluwagan, this time for wives of the tricycle drivers. She still laments the fact that although she did not volunteer her services to the fish vendors, they sometimes gave her headaches. According to Consuelo, some of the clients opted to get two shares but could not maintain regular contributions. In another instance, one of the clients went abroad as a migrant laborer right after her turn to draw from the pot, leaving Consuelo to take care of her subsequent contributions. Eventually, this client repaid her, but not before Consuelo encountered problems juggling funds among her many

business ventures. At one point, she recalls, she did not even have money to buy merchandise for her store. In all her experiences, she never considered getting a loan from a bank, let alone depositing her collections in a savings account. The main reason cited by Consuelo is distance; according to her, she would use up her small earnings just commuting back and forth between Kabaritan and the Rural Bank located in Bay.

CASE NUMBER 4

A Vendor Who Provides Various Financial Services

From her dry goods stall in Bay's public market Marsha, a 43-year-old housewife, provides various forms of informal financial services. She offers these services to her store customers as well as to her other market vendors, neighbors, and friends. These services consist of pahulugan, paluwagan, and 5/6.

She started her business in 1977, with capital of 400 pesos. Having been a full-time housewife for more than 10 years, Marsha decided that it was time to begin earning money on her own. Her husband grew pigs, but this did not provide sufficient income for a family with five children. Initially, Marsha approached some of her close friends and offered household items on easy installment terms through a pahulugan. Her friends welcomed the chance to acquire needed items without having saved enough money to afford cash purchases, and many of them asked for new items as soon as they finished paying for debts owed on previously purchased goods. Soon she had quite a number of regular customers who requested a variety of items ranging from pieces of clothing to major appliances. Her rules of thumb for deciding profit margins were to add a profit of 5 percent on small items like plates and blankets and add 10 percent profit onto her purchase price for more expensive items such as furniture and appliances. Then she patiently collected payments daily or weekly. The amount to be paid, or hulog, was fixed during the initial agreement, the minimum amount being 5 pesos per day. If on any collection day her client could not pay the hulog, Marsha would allow her to pass and make up for it on better days.

When she had saved enough capital, Marsha opened a market stall. This move expanded her clientele and the services she could offer. Soon she gave out loans to her fellow vendors at 5/6. This means that for every 5 pesos borrowed, the creditor ends up returning 6 pesos in a month--an interest of 20 percent monthly. Although this interest rate is much higher than the prevailing interest rates on bank loans, many market vendors use and like the 5/6 arrangement because it does not require collateral and cosigners nor entail substantial paperwork.

Because of her many business contacts, Marsha also organized paluwagans, an activity in which she is still involved. Most of the members of her two paluwagans are market vendors who find it easy to save daily by putting some of their earnings into the paluwagan. In her small paluwagan, 10 members contribute 10 pesos a day, and every 15 days someone gets 1,500 pesos. As a non-contributing organizer, Marsha also gets the first pot, the rationale being that she has to have initial capital as the organizer to cover for any member who subsequently defaults on their daily contributions. The members contribute an extra 15 days to cover for Marsha's share, the arrangement referred to as patay ang isang butas. In her large paluwagan, 10 members contribute 20 pesos per day, and one member gets 3,000 pesos every 15 days. According to Marsha, it is not uncommon for market vendors with brisk sales to be concurrently members of both paluwagans.

To finance her many ventures, Marsha occasionally uses loans provided by the local Rural Bank. Most of these loans are for 5,000 pesos. A bank representative comes to her market stall every day and collects 60 pesos as daily payment on the loan. She considers the arrangement as fair enough because she does not have to leave her store to go to the bank. In addition, she is not asked for formal collateral since her store and reputation serve for

that purpose. Even though she ends up paying interest of 400 pesos on her loan she gains much more than this by using the money as capital for her business.

Marsha used to make bank deposits. However, she no longer does so because of the growing needs of her family. Moreover, she finds it more profitable to lend out money than to hold it in deposits. Eighteen years after having migrated from Tiaong, Quezon, to settle in her husband's town, Marsha is an established resident of Bay. Together with her husband, who is also hard working, she is intent on assuring a brighter future for her children. What is amazing is that this housewife, who finished only grade IV, can manage to keep track of all her transactions.

CASE NUMBER 5

An Itinerant Merchant from Batangas Who Sells via Installments

Sonia is a 30-year-old itinerant merchant from Ibaan, Batangas. She is married to a full-time truck driver, and they have five children. She started her pahulugan or installment business in 1977 when she decided to augment the family's income. Her husband's earnings provided them with the basic necessities, but she wanted more for her children, particularly the opportunity to receive more education than their parents.

Being a merchant runs in Sonia's family. Her parents supported their brood of ten by selling goods on easy installment terms in various areas in metro Manila, and even as a child she began absorbing the tricks of the trade. Likewise, many of her aunts and uncles in Batangas are engaged in the pahulugan business. From them she learned where to obtain goods at bargain prices so she can realize a higher mark-up without losing her customers and how to persuade reluctant creditors to pay for the goods they obtain through installment purchases.

Sonia's territory covers several barangays of Bay, Laguna, particularly those adjacent to the town center. She avoids outlying areas and inquires about any new territory she is planning to enter to make sure she would be safe from robbers and rebels. To avoid being robbed, she carries her collections in a purse tucked in her intimate apparel.

According to Sonia, the profits from her installment selling are variable, depending on her knowledge of customers, her own financial standing, and her ability to haggle when purchasing goods for resale. The profit-interest markup that she adds to the acquisition price of her goods varies from 5 to 20 percent per month. On the fifteenth and thirtieth of each month she makes her rounds

and collects installment payments of any amount that her customer can afford until the selling price, including the interest, is paid. The amounts owed and paid are recorded in two notebooks: one is for her and the other for her creditor.

Sonia's clients are people who have reliable source of income-- e.g., fishing or farming--and want to acquire clothing and household items but cannot pay cash. In the town of Bay, she has twenty regular customers who are all responsible creditors. These regular clients recommend and vouch for the creditworthiness of other prospective clients, and thus her clientele keeps expanding.

In Sonia's opinion, the most important trait for a person in her trade is patience. An impatient person has no future in the pahulugan business. There are customers who honestly admit that they have no funds to spare on a particular collection day and some even hide. According to Sonia, a merchant who is irritable is likely to earn more enemies than profits, and this is dangerous for the seller, especially in remote barangays. Hence, from experience she has learned to cultivate the art of keeping her cool without sacrificing persistence in her bimonthly collections.

CASE NUMBER 6

A Collector for a Bombay Merchant

Carmen is 36 years old and single. She runs a sari-sari¹ store, which also doubles as a canteen, and lives with her elderly father. Just a year ago, before her mother died, she was taking care of both parents. Her ambition is to be a successful businesswoman. She believes that if she can assemble sufficient capital she can make a go of it because she has already learned a lot of business know-how from a Bombay.

Bombays, according to Carmen, come from India to be itinerant merchants. They are men who have left their families in their place of origin. A relatively large number of Bombays can be found in the Laguna area, and they have a regular fellowship meeting every Sunday during which they worship, share meals, and exchange information. They enjoy roaming around the countryside and marketplaces every day and are not embarrassed about carrying all sorts of goods for sale with them.

Carmen knows about Bombays because she was recruited as a "collector" by a Bombay based in Bay and Los Baños. She was tending her small store when the Bombay asked her if she would be interested in collecting daily installments due on goods and interests on loans for him. Her initial salary was 400 pesos a month. At first she had reservations about accepting the job. It entailed going with him on his motorcycle to become familiar with the location of his clients' houses and stalls. She was afraid of the gossip that might be spawned by such activities. But pragmatic considerations outweighed her doubts about accepting the offer--she was supporting two elderly parents, her small store did not provide a steady and sufficient income, and it would not hurt to learn

¹A local variety store.

the trade secrets of the Bombays. She figured that if they were willing to put up with separation from their families and distance from their homeland, the business must be good.

When she said yes, her "Boss" gave her a tour of the houses and stalls of all his clients and even introduced her to his fellow Bombays. Bombays, Carmen found out, offered two kinds of financial services. Customers may obtain items from them and pay for these items in small daily installments, and market vendors may also obtain loans from them at 10 percent interest per month. Two record booklets were made out for each borrowing client. The client kept one booklet, and the Bombay or his collector kept the other. Since collections were done daily, records had to be entered and duly signed by the loan collector every day.

Typically Bombays have a large number of regular customers because they offer flexible payment arrangements, and borrowers might even postpone payments for several days when they were hard up without any serious repercussions. According to Carmen, the customers liked the idea of acquiring things without feeling the burden of paying for them in cash. In fact, many people who purchase goods from Bombays accumulate household items and clothing by getting one item on installment after another. In buying goods this way, they are spared the trouble of having to shop and incurring the costs of going to town. Once their credit rating is established with the Bombay, the suki² can be granted special concessions such as lower prices on goods and easier payment terms. As for the market vendors, they appreciate having a ready source of capital for their business without having to fill out forms, present collateral, or win over hesitant guarantors.

²A regular and favored client.

The Bombay is initially willing to trust almost anybody. He starts by looking over the prospective client's house or market stall and initially sells on installment only low-cost items or makes small loans on a trial basis to new customers. A new client who proves to be a reliable payer, can later request a more expensive commodity or a bigger loan. If, on the other hand, clients default on their payments, the Bombay plays along until he has recovered his initial investment and then refuses to extend any more credit to these individuals.

However, the Bombay has more stringent requirements regarding his collectors. According to Carmen, the Bombay looks for signals³ that a person is trustworthy. She could not explain any further what these "signals" are. Once taken into his confidence, a collector such as Carmen has to continuously prove her loyalty by remitting the payments regularly and keeping faultless records of transactions. In the course of Carmen's association with the Bombay, her monthly salary increased from 400 to 1,000 pesos. Ultimately, she was taken along to the weekly fellowship sessions and treated as an insider. She found out, for instance, that Bombays seek out the best bargains and then add a 50 percent profit margin on most items. This margin, however, is reduced for clients who become sukies. Rather than incur trouble, a Bombay forgets about a bad loan as long as the capital had been recovered.

Upon her mother's death, Carmen decided to quit her job as a Bombay collector. She now aspires to expand her own business. Although getting additional capital remains her main problem, she does not consider borrowing from a bank because she is put off by all the requirements. As to her savings, she said she would rather buy appliances or put her money into her store because she is afraid that when she has money saved, something--an illness or

³Literally, signs or bases for prognosis.

an emergency--would crop up, demanding that the savings be spent. This fear, according to her, is borne out by experience and is also attested to by several of her neighbors.

CASE NUMBER 7

A seller of informal lottery tickets in Bay, Laguna

Amelia is 33 years old. She married at the age of eighteen but the marriage did not last, leaving her to raise a daughter alone. She is responsible for her 59-year-old mother and two younger brothers in addition to her 14-year-old daughter. Having finished only elementary schooling, Amelia's aspiration in life is for her daughter to finish college.

Selling tickets for the local informal lottery is her main occupation. In an on-and-off fashion she has served in various capacities in the juetang business. First, at the age of 14, she served as a kubrador or collector for her grandfather. She continued until she married and then became more of a housewife as well as a part-time laundry woman for relatives. After her marriage failed, she supported her family by doing other people's laundry. However, an operation two years ago made it dangerous for her to do heavy tasks. Thus, she turned again to being a jueteng collector, this time for an aunt who had inherited Amelia's grandfather's position as kubrador mayor.¹

Returning to her former occupation did not pose any difficulties because she had numerous acquaintances, including the people she worked for as a laundrywoman. This was also the time when jueteng was experiencing a surge in popularity and many people were eager to try their luck. She soon gained many clients who regularly bet and frequently won.

Last year, the management of what is considered the biggest jueteng operating in southern Luzon decided to put up a new branch of their operations

¹In the jueteng hierarchy several kubradores answer to one kubrador mayor to whom they surrender their collections. The "mayor," in turn, serves as an intermediary between the kubradores and the management of the lottery, who are represented by the revisador and the bangkero.

(bangka) in Bay, Laguna. Amelia's aunt, already a trusted employee, recommended Amelia for a more responsible position, and she was accepted as a kubrador mayor. Presently she performs two roles. She has maintained her former role as a collector, doing her usual rounds three times a day about thirty minutes before each of the three scheduled draws--at 10:00 A.M., 1:00 P.M., and at 9:00 P.M. Then, as a mayor she collects the lastillas² from all the kubradores under her supervision, checks each lastilla along with the management-appointed revisador³ to see if all the numbers listed are accounted and paid for, and witnesses the drawing of winning numbers.

The key to staying in business as a mayor, according to Amelia, is to go over the lastillas submitted by the collectors very carefully to see to it that all the numbers selected by the clients are included in the final list and also assures that the exact amount collected, as reflected in the lastillas, is turned over to the revisador. Any oversight regarding these matters is the responsibility of the kubrador mayor. For instance, if a number listed in the lastillas comes out in the rolling of the dice but this number was not included in the final list, the mayor is the one who pays for the winning bet out of her own pocket. Likewise when there is some discrepancy between the amount listed in the lastillas and the amount surrendered by the kubrador the management or bangka renounces its responsibility to remit any winnings from that particular lastilla. Consequently, the mayor and the corresponding kubrador have to answer to any winner from that lastilla.

Another risk of being a jueteng kubrador or mayor is being arrested and jailed. This is one reason why many kubradores are hesitant to discuss their

²List of all numbers which the clients chose to bet on during each draw.

³Person who reviews the lastillas and the collections to protect the interest of the jueteng operators.

involvement in jueteng. However, Amelia does not consider this a serious deterrent because the operators of jueteng have considerable influence and have an obligation to obtain the release of any arrested kubrador through bail or other means.

To compensate for the risks and responsibilities inherent in the business, a person such as Amelia is relatively well paid. She receives a regular salary of 45 pesos per day (15 pesos per draw). As kubrador, she also gets a 10 percent commission on all the bets she personally solicits, and as a mayor, she receives an additional 5 percent commission on the bets submitted by the kubradores under her supervision. In addition, when one of the bets that she sells wins it is common for her to receive a balato or favor (in cash) from the winning client. If, on the other hand, a number from the lastillas of one of her kubradores wins, she receives 5 percent of the total amount won. The kubrador who collected the bet gets another 5 percent as well as a balato from the winning client.

According to Amelia, many people participate in jueteng as a means of recreation, as a way of pakikisama,⁴ and simply to try their luck. A person like her can easily get a lot of clients as long as she has stamina and patience. She describes herself as laman ng kalsada⁵ because she has to be out in the street every day soliciting bets. Moreover, she puts a lot of effort into maintaining smooth interpersonal relationship with the kubradores, the revisador, and the bangkero.⁶

⁴Cultivation of camaraderie.

⁵Literally, substance of the road.

⁶The bangkero is the individual who handles the "pot" in the lottery.

Although Amelia works hard every day, what she makes is just enough to support her family of five. Thus, she sees no reason (or opportunity) to save in a bank. Survival, for her, is just a day-to-day affair. Pawnshops are also beyond her range of experience because, she said candidly, she has nothing valuable enough to pawn.

CASE NUMBER 8

An Informal-Lottery Ticket Seller in Bay

Mang Luis is a 54-year-old landless farm laborer residing in Calo, Bay, Laguna. He is married and is the only breadwinner for his family of seven. Only one of his children has attended high school because what he makes as a farm laborer is barely enough for family subsistence.

Due to the instability of the demand for his services as a farm laborer, Mang Luis decided to volunteer to collect jueteng bets. In 1963, he approached a neighbor who was involved in jueteng operations and offered to be a ticket seller for him. Since then, Mang Luis has sold lottery tickets during the times when he is largely unemployed between planting and harvesting periods.

Currently Mang Luis serves as kubrador for three lotteries: PCSO (the national lottery run by the Philippine Charity and Sweepstakes Office) and two local informal lotteries. The former gives the kubrador a commission of 18 percent of the total amount of bets solicited whereas the latter give only 13 percent. As kubrador Mang Luis also receives an additional 10 percent commission from winning bets plus the unofficial and voluntary gifts from winners.

But Mang Luis's involvement in jueteng does not stop with his being a kubrador. In his own words, "jueteng is addictive." He bets in all the draws of the two informal lotteries that he represents; that is, he buys lottery chances three times a day in each informal lottery for a total of six bets daily. According to Mang Luis, he spends an average of 10 pesos per bet so 60 pesos out of his earnings as kubrador are actually recycled as bets daily. His reason for spending a significant percentage of his earnings in betting is

that, "one can never tell when luck would smile on me," and he would feel it is such a waste if one of his favorite numbers won without his having bet on it.

Addiction, according to Mang Luis, is really the reason why jueteng is very popular and why it is relatively easy for a hardworking kubrador to assemble a lot of clients. Because with even a small bet a jueteng participant has the chance to win a relatively large amount, it does not matter to most gamblers if there are only small chances of winning. The lure of possible large returns coupled with the observation that neighbors and friends do occasionally win is enough incentive to sustain the addiction to jueteng.

The key to maintaining clients' patronage, according to Mang Luis, is to be trustworthy (make sure that all bets are duly entered in the lastillas), to be tactful (solicit bets only at times that do not compromise the bettor, e.g., the wife who has been reprimanded by her husband for spending too much of the housekeeping money on jueteng), and to be lucky (to be able to recommend winning combination). To stay in business, one also has to be trusted by the managers of the lottery and be able to dodge arrests.

What Mang Luis earns as kubrador and as an agricultural laborer is still just enough to insure that he and his family eat three times a day. For this reason he sees no need for banking services and dismisses any questions about his aspirations in life.

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