

# Perception of Vendors on Informal Lending Institutions

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**Abstract**— *Informal lending is one of the Philippines ' most common sources of funding for households. The study described the perception of vendors towards informal lending in terms of cost, discretion, patience, humanity or sympathy, and reliability. Survey questionnaire was used in the study. The researcher used likert-scale type questionnaire and analyzed it through statistical data treatment such as mean and weighted mean. The findings of the study are as follows: in terms of cost, informal lending adds investment to business; in terms of discretion, informal lending greatly helps the business; in terms of patience, payment usually is given on the agreed date; in terms of sympathy or humanity, apology seems to be effective in not meeting the agreed date; and in terms of reliability, the ease of access to informal lending.*

**Keywords**— *Informal Lending, Perception, Cost, Patience, Sympathy or Humanity, Discretion, Business, Reliability.*

## I. INTRODUCTION

Informal lending is one of the Philippines ' most common sources of funding for households. In relation, Fuwa et al. (2015) stated that formal financial institutions are largely underdeveloped within developing economies and, as a result, informal lending serves as a significant medium for credit access. Mansuri (2007) further stated that informal lenders with market or capital exposure frequently find it attractive to assign loan provision to downstream lenders with a knowledge or compliance advantage when dealing with individual borrowers.

Zapata (2006) concluded that less trained, married and/or large-scale households are more likely to borrow from informal lenders. Ferrer (2017) enumerated that certain causes included diminished spouses ' ability to earn family income, poor home wealth and significant mortgage debt, inadequate ability to manage money and financial planning, and high incidence of illicit use of credit.

Dula and Grego (2017) concluded that although the characteristic of their company is informal, the supply of goods and services on the market and the local economy complements consumer activities. It is also important to understand as concluded by Floro (2017) the personal relationship between lenders and borrowers because it also has an influence on other markets, in addition to its effect on the credit transaction. Further, Römer (2017) found that

results indicate that treatment group loan borrowers reported lower income, an impact more pronounced in the lowest percentile of income.

In Philippine rice-growing towns, rice merchants and farmer borrowers dominate the informal credit market as stated by Nagarajan et al. (1995). Thus, Briones (2007) concluded that informal lending reflects that borrowing responses should be a major concern in the implementation of finance cost recovery policies.

## II. CONCEPTUAL FRAMEWORK

This research will be based on the study of Catherine Cross, Community Service Training Programme, University of Natal entitled on "Decision factors involved from a clear pattern. It is mentioned that community seems to evaluate potential lenders on five criteria which is cost, discretion, patience, sympathy or humanity, and reliability." These factors will be the consideration to this study.

This research will help lending institution especially to the vendors of Cabanatuan City to determine the proper comprehension of informal lending and the problems to be encountered in solving using the factors. In this study they will know the advantages of borrowing in lending institution, and how it helps them.

**III. OBJECTIVE OF THE STUDY**

The study described the perception of vendors on informal lending institutions be described in terms of: cost, discretion, patience, sympathy or humanity, and reliability.

**IV. METHODOLOGY**

The study used descriptive method as it describes the present condition. The main objective of the study is to explore the causes of particular phenomenon. It further concern with the condition or relationship that exists; practices that prevail; and beliefs and processes that are going on; effects that being felt or trends that are developing. (Cohen, Manion, Morrison, 2002)

The researcher used likert-scale type questionnaire (Vagias, 2006) and analyzed it through statistical data treatment such as mean and weighted mean.

**V. RESULTS**

Table 1 showed that in terms of cost, the statement, “Informal lending has a great impact on my business because it adds to my investment” has the highest weighted mean with 3.65 and interpreted as “Strongly Agree.”

Table 1. Perception about Cost

STATEMENT	WM	VI
Informal lending has a great impact on my business because it adds to my investment.	3.65	Strongly Agree
I have enough business income avail informal lending.	3.31	Strongly Agree
I agree with the borrower's interest rate in informal lending because it's reasonable in terms of time length.	3.26	Strongly Agree
I am encouraged to borrow money in informal lending because of my emergency business needs.	3.46	Strongly Agree
I favor that when I did not pay the debt one of my assets would be taken.	3.31	Strongly Agree
<b>Average Weighted Mean</b>	<b>3.40</b>	<b>Strongly Agree</b>

Table 2 showed that in terms of discretion, the statement, “I borrowed money from informal lending because it greatly helps my business,” which has the highest weighted mean with 3.33 and interpreted as “Agree.”

Table 2. Perception about Discretion

ITEMS	WM	VI
It's not hard to pay everyday on my borrowed money.	2.99	Agree
I will repay informal lending because it benefits me greatly.	3.19	Agree
I borrowed money from informal lending because it greatly helps my business.	3.33	Strongly Agree
Informal lending helps with my livelihood.	3.03	Agree
I balance my income and expenses to allocate payment for my debt.	3.25	Strongly Agree
<b>Average Weighted Mean</b>	<b>3.16</b>	<b>Agree</b>

Table 3 showed that in terms of Patience, the statement, “I pay on the agreed date of payment” which has the highest weighted mean with 3.43 and interpreted as “Strongly Agree.”

Table 3. Perception about Patience

ITEMS	WM	VI
I pay on the agreed date of payment.	3.43	Strongly Agree
I always wait for the collector to arrive on the date of payment.	3.28	Strongly Agree
I pay based on our agreement terms.	3.26	Strongly Agree
I pay in advance of our agreed date of payment.	3.36	Strongly Agree
<b>Average Weighted Mean</b>	<b>3.33</b>	<b>Strongly Agree</b>

Table 4 showed that in terms of Sympathy or Humanity, the statement, “I apologize whenever I cannot pay for our agreed date of payment.” which has the highest weighted mean with 3.36 and interpreted as “Strongly Agree.”

Table 4. Perception about Sympathy or Humanity

ITEMS	WM	VI
I tell the cause of the delay of payment to the collector.	3.33	Strongly Agree
The collector and I treat each other well.	3.17	Agree
Every time I miss paying, I ask for consideration with the collector.	3.35	Strongly Agree

I apologize whenever I cannot pay for our agreed date of payment.	3.36	Strongly Agree
<b>Average Weighted Mean</b>	<b>3.30</b>	<b>Strongly Agree</b>

Table 5 showed that in terms of Reliability, the statement, “It is easy to borrow money from informal lending without formal requirements” which has the highest weighted mean with 3.41 and interpreted as “Agreed.”

Table 5. Perception about Reliability

ITEMS	WM	VI
In times of emergency, Informal lending is very reliable.	3.34	Strongly Agree
Informal lending helps the people without enough credentials to loan money.	3.38	Strongly Agree
It is easy to borrow money from informal lending without formal requirements.	3.41	Strongly Agree
In terms of business matters, informal lending is reliable.	3.19	Agree
<b>Average Weighted Mean</b>	<b>3.33</b>	<b>Agree</b>

## VI. CONCLUSION AND DISCUSSION

Generally, the respondents were satisfied with the aim of informal lending institution but they still need to gain more knowledge about this institution. The findings of the study are as follows: in terms of cost, informal lending adds investment to business; in terms of discretion, informal lending greatly helps the business; in terms of patience, payment usually is given on the agreed date; in terms of sympathy or humanity, apology seems to be effective in not meeting the agreed date; and in terms of reliability, the ease of access to informal lending.

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