PHILIPPINE MICROFINANCE DISCUSSION PAPERS

Multiple Borrowing in the Philippines:

A Pilot Area Study based on a Household Survey

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Multiple Borrowing in the Philippines

A Pilot Area Study based on a Household Survey[1]

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INTRODUCTION & OVERVIEW

This report is third in a series of notes on multiple borrowing in the Philippines, reflecting the use of various data sources (as explained in the Review of the Literature) to estimate the incidence and correlates of multiple borrowing. It makes use of a household survey that is designed to be representative of the Commonwealth community. As previously explained, the Commonwealth area was chosen as the site for this pilot study of multiple borrowing based on prior consultations with the microfinance community. In particular, many key informants believe that if multiple borrowing is taking place at all, it must be taking place in the Commonwealth area, as it is known to be served by several MFIs, including some of the bigger MFIs.

METHODOLOGY

As previously described, survey is representative of the Commonwealth area and the interviews were conducted in May 2011 in 6 barangays: (1) Brgy. Commonwealth, (2) Brgy. Payatas, (3) Brgy. Holy Spirit, (4) Brgy. Bagong Silangan, (5) Brgy. Fairview, (6) Brgy. Batasan Hills. The barangays as a group account for almost 400,000 households, according to the latest census. The final sample size was 800 households.

Table 1 provides the geographic breakdown of the sample. Alternatively, the sample can be grouped by socioeconomic classification. Following the standard ABCDE socioeconomic classification – with the AB class roughly corresponding to those with monthly income levels 100,000 PhP and up; Class C with incomes 20,000 to 100,000; and class D and E with incomes 10-20,000 or less than 10,000 PhP, respectively – the data suggest that the AB class accounts for 2.3 percent of the sample, the C class accounts for 16 percent of the sample, and classes D and E represent 49 percent and 23 percent of the sample respectively.

Each interview took about an hour to complete. The interviews were conducted by a professional survey firm, TNS Philippines. Prior to the actual interviews, a number of briefing sessions and mock interviews were conducted.

Although this survey is primarily one of the bases for a study of multiple borrowing among MFI clients, the survey was designed to have a broader reach, representing both MFI and non-MFI client households alike. In large part, this reflects the research team and the partner institutions' desire to understand the current reach of the microfinance community, taking all households into account. This has consequences for the eventual final sample of MFI client households and whether there are enough observations for statistical analysis, as explained more fully in the next section.

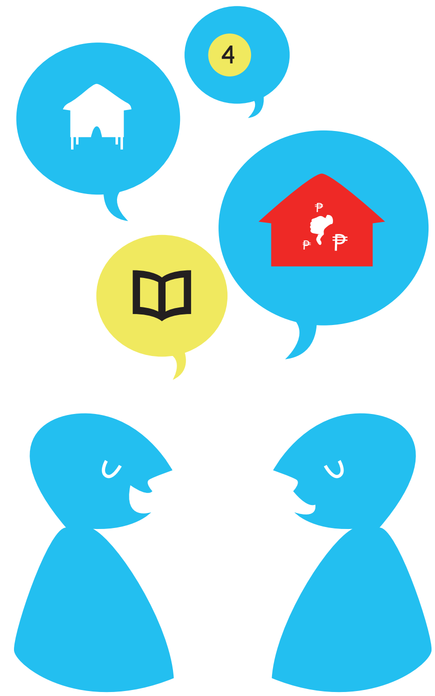
The survey followed a multi-stage stratified sampling design. In Stage 1, the number of interviews was assigned to each barangay proportional to the known household population of each barangay. In Stage 1, the survey followed interval sampling to draw sample households in each barangay. In particular, a starting street corner was drawn randomly and then the first sample household selected randomly from among the households nearest this starting street corner. Subsequently, households were chosen following a fixed interval of 5 households. In each household, the "Purchase Decision-Maker" was selected as the main respondent, considering the focus of this survey, which is on borrowing behavior, expenditure choices, etc. The main respondent was

Table 1 : Geographic Breakdown of the Sample

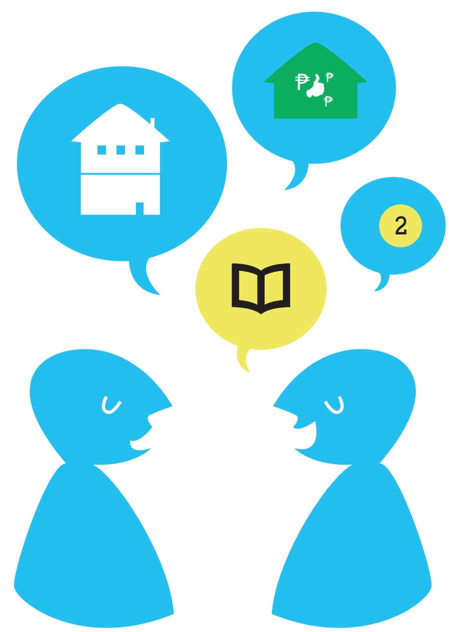
	Household Population	No. of interviews
Brgy. Commonwealth	120,520	247
Brgy. Payatas	112,682	231
Brgy. Holy Spirit	89,432	183
Brgy. Bagong Silangan	32,495	67
Brgy. Fairview	30,007	62
Brgy. Batasan Hills	5,057	10
Total	390,193	800

Source: TNS Philippines (2011) Methodological Report selected following a few initial screening questions at the beginning of the interview.

The interviews were conducted in person following a structured questionnaire, which included modules on household expenditures, income sources, participation in labor market and entrepreneurial activities, and households access to credit and borrowing behavior. The questionnaire was developed based on modules that are routinely included in national household surveys, such as the Family Income and Expenditure Survey (FIES) and the Annual Poverty Indicator Survey (APIS). The presence of other modules, notable those related to socio-economic characteristics, allows the survey to be used not just for the immediate purpose of estimating the incidence of multiple borrowing, but also to understand broader issues linking household welfare (and poverty) to household access to finance, including microfinance. The modules capturing household characteristics, including ownership of certain durable goods and the characteristics of their residential units were also intended to allow for the calculation of indexes such as the Progress out of Poverty Index (PPI), based on the same set of questions and variables.



The module on credit and household indebtedness, particularly the section on MFI borrowing, was carefully developed by the research team, though patterned to some extent after existing credit modules. One major consideration was how best to structure question to obtain meaningful information on the ground. The research team considered the term “MFI”, for example, as likely not meaningful to households in the Commonwealth area (and key informants agreed). Instead, the interviews made use of showcards listing specific rural banks, cooperatives, and NGOs operating in the Commonwealth area, rather than simply referring to them as “MFIs”. In addition, the module included a full listing of other possible sources of credit, including family and friends, employers and landlords, government institutions, government banks, pawnshops, private moneylenders, lending investors, and private commercial banks. The question on credit and indebtedness was asked of every identified member of the household. In addition, the emphasis was on quantities and binary choice variables (Yes/No), rather than on loan amounts, with the objective of encouraging more response.



LIMITATIONS

There are several notable limitations of this study. First, this household survey is not nationally representative. Because it is an area study, it is representative of a very specific community. In addition, it is representative of an area with very specific characteristics – in this case, a community known to be served by as many as 14 MFIs.

Furthermore, this survey is only one of three data sources that the research team is using (as explained in the Review of the Literature and Research Design) and every source is characterized by very specific weaknesses and strengths. In the case of a household survey, for example, the information is basically self-reported and may reflect errors or deliberate attempts to provide misleading information. Households may or may not provide accurate information about sensitive topics, particularly about their finances and about multiple borrowing. In some cases, they may not know, because one household member (in this case, "purchase decision maker" or typically the head of household) speaks on behalf of every member of the household. These respondents may or may not know every household member's actual finances. In other cases, they may provide misleading information. In addition, because we cover the full spectrum of households across various socio-economic segments, by construction, we get only—out of the full sample—a fraction of MFI borrowers. In other words, if a certain fraction is not large enough, we do not get enough information to generate profiles. For the purposes of estimating the incidence of multiple borrowing (narrowly defined as multiple MFI borrowing), the survey, because it is designed to be representative of all households in the Commonwealth, representing both indebted and non-indebted households alike, will by construction have a small final sample of multiple MFI borrowers, the sample of MFI clients itself being only a fraction of the total sample of households.

One important limitation, the survey's response rate is 30 percent which, by any measure, is low. This could be due to any number of things. It could be that out of all the households visited, not a single household member was home at the time of the interview—they were out of town, available only at night, etc. The low response rate reflects outright refusals as well, either because households may see no reason to participate in the interview, suggesting lack of interest, mistrust, etc. If those refusing to participate or those households without a single member at home at the time of the visit are *systematically different* (e.g., different in their individual, demographic, or household characteristics), then the results of the survey will likely be biased. This means that the statistical profile generated from the data may not be the profile of the representative household in the Commonwealth area but the profile of willing, respondent households in the Commonwealth area. One other possibility is that households who did not participate tend to reside in gated communities, typically the more affluent households. In fact, the survey team reportedly had the most difficult obtaining access to Susana Heights, Capitol Homes, Don Jose, and Filinvest 2 – some of the more affluent neighborhoods in the Commonwealth area.

On the other hand, indications suggest that the response rate of this survey compares favorably with recent surveys conducted in Metro Manila. In particular, TNS Global, the survey research firm that conducted the survey, cites four recent surveys with responses lower than 20 percent. In addition, this Commonwealth survey's response rate is comparable to the response rates of surveys conducted by other firms, such as the Social Weather Station (SWS) Monitoring of Self-Rated Deprivation, a nationally representative survey. Furthermore, of the households that field interviews managed to contact, over 50 percent agreed to be interviewed and completed their interviews. Finally, our analysis of the profile of indebted households can serve to provide further confirmation that the Commonwealth data are reasonably representative. We can, in fact, compare some of the findings from this survey with those of other recent information sources (such as the Central Bank's Consumer Finance Survey as well as the branch client data themselves) to see whether some of the descriptive statistics and profiles are broadly comparable. If so, this provides us greater confidence in the representativeness of the data.

MAIN RESULTS

Overview

This section reports the main results of the household survey. It first reports on broad measures of household access to credit or household indebtedness, before exploring access to microfinance and multiple borrowing more fully.

Chart 1 reports the incidence of indebtedness by key sources of credit. The data suggest that only 6.8 percent of households in the Commonwealth area are MFI clients. A much smaller fraction of households borrow from private commercial banks or from government banks. In contrast, much larger shares of the household population borrow from informal sources (family and friends). Taking all sources of credit together, some 57 percent of all households have access to some form of credit, whether formal or informal.

Despite our initial misgivings about likely biases and the lack of alternative sources of information to verify the credibility of this survey data, patterns are generally consistent with previous studies of household indebtedness in the Philippines as well as of household indebtedness elsewhere in other countries. For example, the survey data suggest that only 3 percent of households own credit cards. Is this credible?

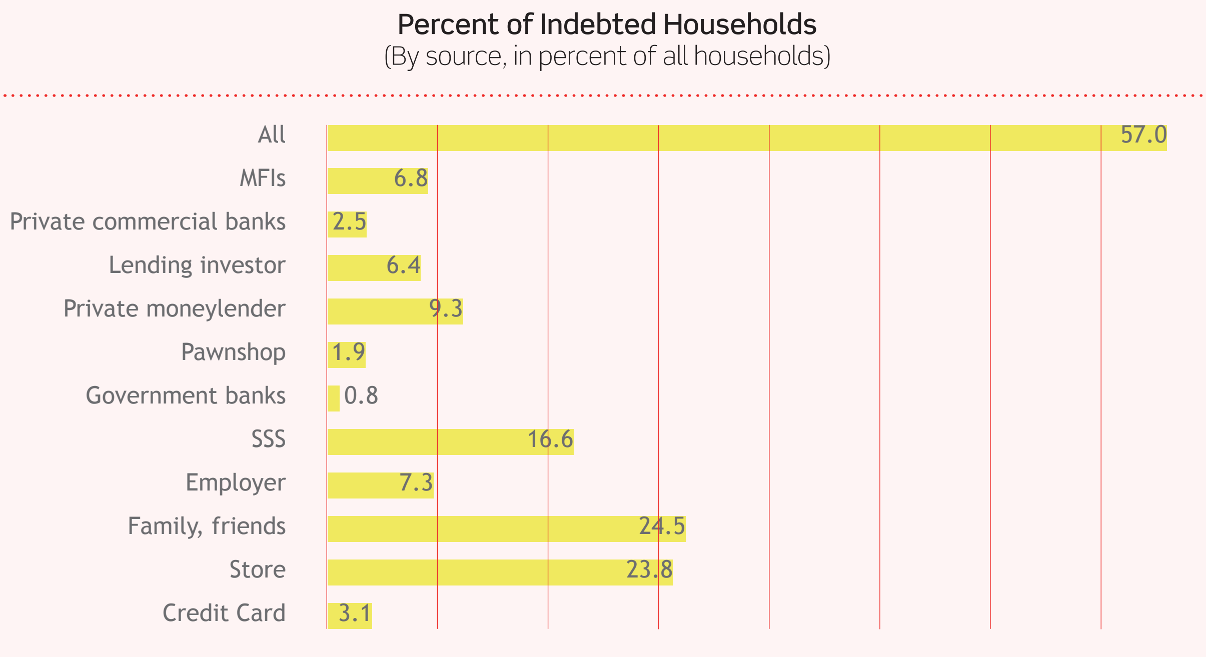
The results of the first Consumer Finance Survey (CFS) of the Philippines conducted by the Central Bank in 2010, the results of which were published in April 2012, suggest that 4 percent of households own credit cards. Another survey conducted earlier by the Central Bank, a rider to the "Consumer Expectation Survey" in 2008, indicated that only 3 percent of households own a credit card (Tan 2008).

In addition CFS data suggest that few households have access to private commercial banks. About 80 percent of all households are "unbanked". This seems generally consistent with the minor role played by commercial banks and government banks in household access to credit. The sources of other consumer loans also seemed broadly consistent – including the role played by money lenders, cooperatives, financing institutions, SSS, and Pag-IBIG – and the dominant role played by informal sources of credit.[2] Furthermore, with respect to the overall incidence of household indebtedness, a series of surveys in the 1990s suggested that nationwide indebted households represented about a third of all households. Given the growth of household access to credit over time, and the likely greater access to credit in rural areas, the estimate 57 percent household indebtedness seems plausible. Finally, data from the World Bank's Global Financial Inclusion Database released earlier this year indicate a similar ranking of the relative importance of various sources of credit.

The older literature on informal sources of finance as a dominant source of finance, particularly among low-income households, seems consistent with Chart 2.
Chart 2 reports the distribution of various sources of credit across income groups. For example, the upper income brackets disproportionately account for credit card and private commercial bank indebtedness, as expected. In contrast, income classes D and E rely more on informal sources of finance. The majority of MFI clients are from the two lowest income brackets, consistent with expectations. However, the data also suggest that households from the top income brackets have access to microfinance, at least in the Commonwealth area.

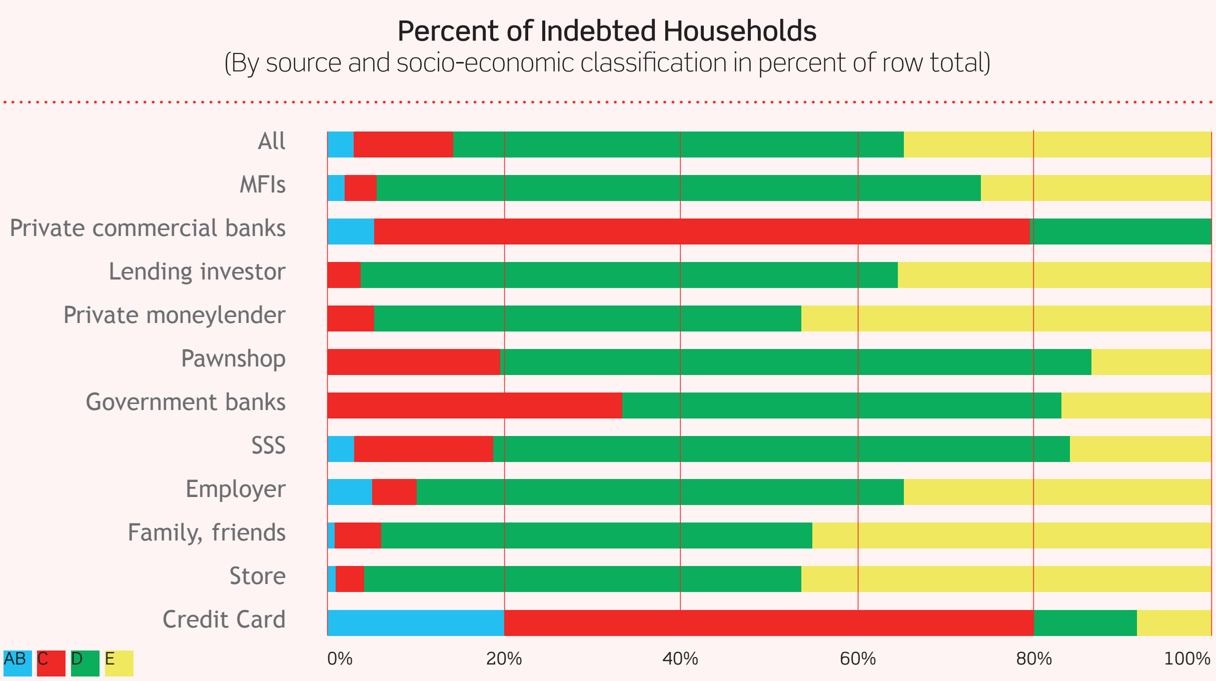
[2] See for example Agabin (1993), though the review of the evidence covers a much older literature.

Chart 1 : Household Indebtedness by Source of Credit



Source: Household survey and authors' calculations

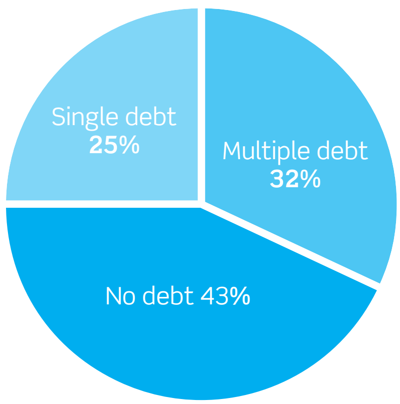
Chart 2 : Household Indebtedness by Source and by Household Income Class



Source: Household survey and authors' calculations

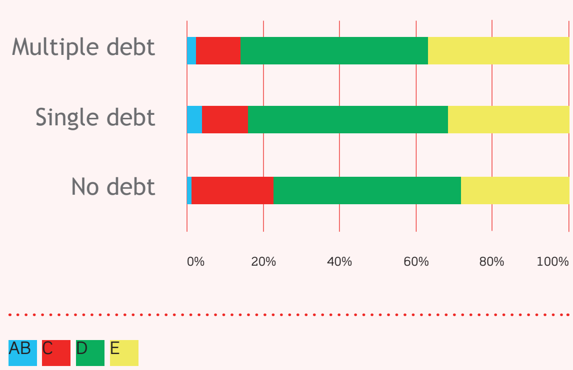
Incidence of Multiple Borrowing

Chart 3 : Distribution of Households
(by level of indebtedness)



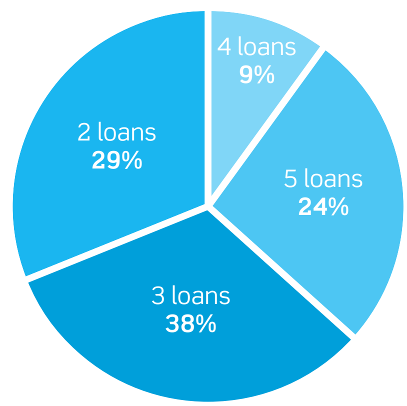
Taking all sources of credit together, the survey data suggest that, as seen earlier 57 percent of households borrowed from at least once source of credit. Of the 57 percent, 25 percent only have a single outstanding loan while all other households, 32 percent, have multiple debts. This represents one measure of multiple borrowing, in a broad sense to include all sources of credit – i.e., 32 percent of households can be considered “multiple borrowers”. Caution is warranted in interpreting this statistic. As previously noted, these measures of multiple borrowing reflect different notions of multiple indebtedness in addition to being subject to errors of inclusion and exclusion.

Chart 4 : Distribution Households
(By socio-economic classification and level of indebtness in percent of row total)



Those that reported themselves to be multiple borrowers tend to come mostly from the lowest household income brackets. In particular, about 49 percent of multiple borrowers are households from the D and E income classes. In contrast, more of the AB and C income classes account for households that only have single outstanding loans or are not at all indebted. Across the two levels of indebtedness, however, households from the two lowest income brackets represent the great majority of indebted households, over 80 percent, on average. The data also suggest that close to half of multiple borrowers only have two loans, a quarter have 3 loans, and the rest have 4 or more loans.

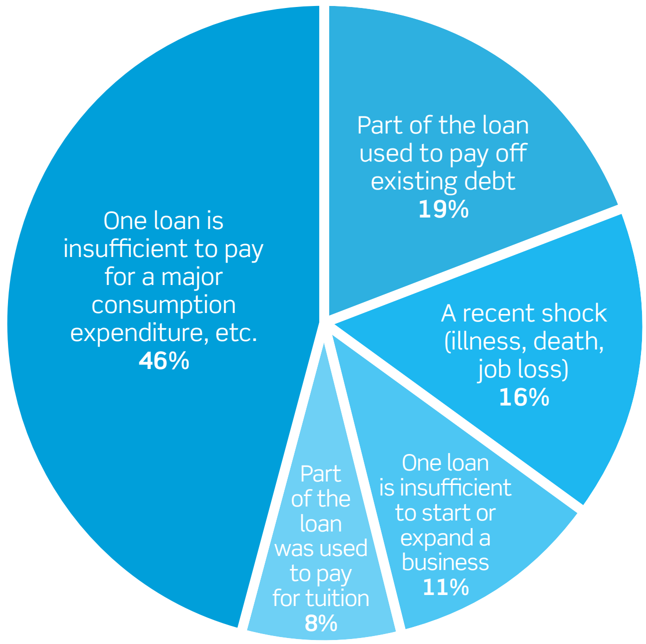
Chart 5 : Multiple Borrowers among MFI Clients
(by number of loans)



Among MFI clients, 77 percent appear to be multiple borrowers, taking all sources of credit into consideration. Again, this should be interpreted with caution. This is a very specific definition of MFI multiple borrowing and is not consistent with the definition used in the analysis of branch client data (which is multiple borrowing from among MFIs alone). The data suggest that close to 70 percent of MFI clients have 2 or 3 loans from various sources, the rest of MFI client households have 4 or more loans. Not a single MFI household reported themselves taking out more than one MFI loan. This could be a sampling error – only a small fraction of households in the sample are MFI client households. By chance, these MFI clients may in fact be taking out only single MFI loans at a time. Alternatively, these MFI clients may be providing misleading information, as it is generally understood that MFI clients are not allowed to borrow from more than one MFI. Comparing the average multiple borrower with the multiple borrowers among MFI clients, one contrast stands out: as a group, multiple borrowers among MFI clients have a higher number of loans. Over 70 percent have 3 or more loans compared to 52 percent on average.

Profile and Correlates of Multiple Borrowing

Chart 6 : Reported Use of Multiple Loans



Source: Authors' calculations

Survey data on reported loan use reveals some possible drivers of multiple loan holding. Chart 6 presents some summary statistics. Close to half of all multiple borrowers claim that a single loan is insufficient to finance a major consumption item. This is even larger, if we add schooling expenses or tuition to consumption expenditures. Meanwhile, about a fifth admit to some form of "loan recycling" or "loan patching", as expected following the literature. About 16 percent admit to borrowing from multiple sources in response to a recent shock. Only about 11 percent use multiple loans to start or expand a business. Taking all these things together, the results suggest that multiple borrowing appears to be consumption and crisis-driven; only a small part of it seems to be driven by business opportunities.

Considering the crisis-driven or consumption-driven nature of multiple borrowing among households in the Commonwealth survey sample, it is not surprising that multiple borrowing is leading to repayment difficulties among about a fifth of all indebted households. However, there is no evidence to suggest that multiple borrowing is associated with substantially higher delinquencies or repayment difficulties compared with the average indebted households.

One piece of evidence is the number of missed payments over the previous 3 months. The data suggest that among all indebted households, about 17 percent missed at least one payment. Among multiple borrowers, about 22 percent missed at least one payment. The difference does not appear to be significant, and this is supported by more rigorous statistical and economic analysis of data on missed payments, though it should be kept in mind that the data are self-reported.

CONCLUDING OBSERVATIONS

This represents a pilot effort to understand the incidence of multiple borrowing and its correlates in a particular community. It complements other data sources, reflecting different notions of multiple borrowing and strengths and weakness in the quality of information collected.

The data suggest that MFI households represent only a small fraction of households in this community. Among MFI households, the incidence of multiple borrowing is large, if by multiple borrowing we mean borrowing from all possible sources of credit. If by multiple borrowing we mean borrowing from other MFIs, not a single MFI household in the sample report themselves to be borrowing from multiple MFI sources. This could be due to sampling error or households could be deliberately providing false information. Data from the other data collection effort – branch client data – can serve to validate this finding.

Multiple borrowing appears to be consumption and crisis-driven, with few of the households reporting that the multiple loans are being used explicitly for business purposes. This is associated with a relatively large fraction of households (about a fifth) missing payments over the months preceding the survey. However, there is limited evidence to suggest that multiple borrowers are substantially more delinquent than the average indebted household.

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