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Street Vendors' Stories: Informal Borrowing Practices and Implications on Business

Jessa Bara-Labitad^{1*}

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ABSTRACT

This study describes the informal borrowing practices of street vendors operating in a Philippine public market and their implications for business performance. Street vendors are an important part of urban communities, offering essential goods and services while navigating the challenges of operating outside formal regulations. Moreover, due to being part of the informal sector, vendors are deprived of access to formal financial institutions, which leads them to depend on informal credit services. This study found that street vendors often turn to “5-6” lenders, borrowing between PHP 5,000 (\$87.06) and -10,000(\$174.13) at an interest rate of 20% in two months, with repeated borrowing cycles prevalent. Also, while these loans provided short-term benefits such as enhanced inventory, better pricing, and short-term financial survival, they imposed significant challenges, including high borrowing costs, strict repayment schedules, and debt dependency. Interviews with street vendors revealed that reasons for borrowing from ‘5-6’ include financial exclusion, regulatory constraints, and external forces like market conditions and health issues. These findings implored the urgency for policy interventions to reduce street vendors’ dependence on informal credit and facilitate access to affordable financial services to support their business sustainability.

INTRODUCTION

The informal sector significantly contributes to the Philippine economy, accounting for an estimated 34.1% of the nation’s GDP, or roughly \$474 billion (Worldeconomics.com, 2023). Allison *et al.* (2021) informality is deeply ingrained in Filipino society and should be considered alongside formal economic practices as it plays a crucial role in urban and rural economies. In line with it, street vendors form a vital part of the informal economy, contributing to urban vibrancy (Unni, 2020). Street vending involves selling goods in public or semi-regulated spaces such as streets, markets, and pavements (Chigudu, 2021).

Street vendors lack access to formal financial services, leading many to rely on informal credit sources. Nguyen and Cahn (2020) indicated that small businesses in the informal sector manage their finances independently, frequently resulting in informal loans. Similarly, Archer *et al.*, (2020) discovered that informal credit is a significant funding source for small enterprises, while Cheng *et al.* (2023) emphasized its importance in fostering economic growth within informal economies. Nonetheless, these financial arrangements frequently exhibit exploitative characteristics, with flexible yet exorbitant terms (Bongani Sibindi & Mpofo, 2022). In the Philippines, street vendors’ most common informal lending practice is “5-6” loans, which are preferred for convenience and lack formal requirements (Punongbayan, 2017). Dula and Grego (2017) noted that “5-6” lenders offer quick access to credit without collateral, making them appealing to vendors. However, the high interest rates and short repayment periods create a cycle of debt dependency for borrowers (Gonzales, 2019).

While “5-6” loans are widely used, they are illegal under Philippine law. The Lending Company Regulation Act (Republic Act No. 9474) mandates that only licensed corporations can conduct lending activities (Securities and Exchange Commission, 2019). The Supreme Court has also declared these high-interest loans illegal under Article 1409 of the Civil Code.

Against the backdrop, this study evaluated the implications of informal borrowing practices, particularly “5-6” loans, on the business performance of street vendors. It sought to provide a deeper understanding of the challenges faced by street vendors and to identify potential solutions for fostering more inclusive financial systems. The study addressed three key research objectives: (1) describe the informal borrowing practices among street vendors, including credit value, interest rate, payment schemes, loan maturity, penalties, and reborrowing frequency; (2) explain how informal borrowing affects business performance regarding pricing strategies, inventory management, net income, gross sales, and selling techniques; (3) converging the findings based on the stories and lived experiences emerge from the street vendors engagement with “5-6” loans. This paper thoroughly assessed the research objectives of the study.

Conceptual Framework

The study gauged the informal borrowing practices of the street vendors. Informal borrowing practices specifically include several dimensions: informal credit value, (Archer *et al.*, 2020; Cheng *et al.*, 2023), interest rates (Nguyen & Canh, 2021), payment scheme (Fanta, 2015), maturity (Cheng *et al.*, 2023), penalty (Hamdan *et al.*, 2019), and frequency of reborrowing (Karlan *et al.*, 2018).

¹ School of Business Management, Xavier University-Ateneo de Cagayan, Cagayan de Oro, Philippines

* Corresponding author’s e-mail: jessabercidebara@gmail.com

Archer *et al.* (2020) defined informal credit value as the acquisition of funds from informal sources, while Cheng *et al.* (2023) characterized it as the sum of loans procured from non-bank financing activities involving individuals, encompassing small, unsecured, and short-term loans. Nguyen and Canh (2021) indicated that informal money lenders typically charge interest rates considerably higher than those of the legal financial sector. As delineated by Fanta (2015), the payment method encompasses adaptable payback conditions customized to the borrowers' situations.

Loan maturity is another area studied, with Cheng *et al.* (2023) noting that shorter loan terms tend to have a higher lending rate, while longer maturities are often associated with smaller average loan sizes. Hamdan *et al.* (2019) reported that penalties for default may result in either partial or complete loan default, which adds to borrowers' financial burden. Additionally, Karlan *et al.* (2018) found that street vendors in the Philippines often re-enter debt within six weeks and frequently borrow at high interest rates to maintain working capital. It also posited that the street vendors might have misunderstood the long-term borrowing costs or prioritized ways to maximize long-term earnings.

Beyond borrowing practices, this paper also addressed street vendors' performance across key dimensions, including pricing tactics (Sammut-Bonnici & Channon, 2015), inventory management (Cordial, 2020), net income (Ahmed, 2022; Karunaratna & Tjandra, 2021), gross sales (Hargrave, 2024), and selling techniques (Mckelvey *et al.*, 2021).

Pricing tactics involves the determination of product prices, typically through a markup approach that calculates production costs and includes a predetermined profit margin. (Sammut-Bonnici & Channon, 2015). Effective inventory management is crucial for micro-enterprises, with approaches such as just-in-time inventory being particularly beneficial for limiting stock to essential and fast-moving items (Cordial, 2020).

Net income, as described by Ahmed (2022), represents the revenue remained after expenses and deductions, which served as a key indicator of profitability. However, Karunaratna and Tjandra (2021), noted that street vendors often lack formal accounting practices and basic financial knowledge, instead they focused on maximizing sales and earnings without structured financial tracking. Gross sales, defined as the total sales within a specific period before accounting for expenses, are a critical metric in retail industries (Hargrave, 2024). Finally, selling techniques play a pivotal role in vendor success. Mckelvey *et al.* (2021) identified strategies such as customer engagement, reliability, upselling, cross-selling, and relational selling as essential for street vendors to persuade buyers and sustain their businesses.

Street vendors' informal borrowing practices are found in set A, while street vendors' performances are in set B. The overlapped region covers street vendors' stories for using the informal funds from "5-6" lending, how funds are utilized, the social relationship of the lender and borrower, the business viability due to borrowing, and street vendors' challenges.

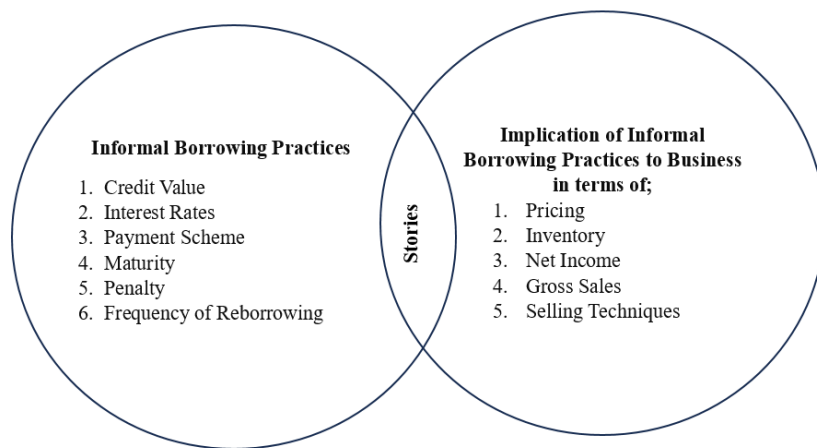


Figure 1: Venn Diagram of Street Vendors' Informal Borrowing Practices and Implications in Business

LITERATURE REVIEW

Informal Borrowing Practices

Informal borrowing practices refer to loans obtained from unofficial or non-institutional sources. Archer *et al.* (2020) define this as liabilities accrued outside formal financial institutions. Nguyen and Canh (2021) observed that the interest rates offered by informal lenders are often substantially higher than those in formal sectors. For instance, the Philippines' informal lending scheme known as "5-6" allowed street vendors to borrow at significantly high interest rates. Fanta (2015) posited the

flexibility of payment schedules in such arrangements, which revealed how repayment terms are often tailored to the borrower's circumstances. This flexibility, while beneficial in some cases, can also lead to cycles of debt as repayment structures may exacerbate financial strain. Cheng *et al.* (2023) noted that the highest lending rates are often associated with short-term maturities, particularly in informal credit schemes like the "5-6" system. (2019) explored sanctions for loan defaults in informal lending and defined them as the penalties imposed when borrowers fail to meet repayment terms. These penalties

can vary but often include severe consequences such as increased financial pressure or social repercussions. Another critical aspect of informal borrowing is the frequency of reborrowing. Karlan *et al.* (2018) found that market vendors in the Philippines frequently reborrow within a few weeks of settling previous debts, which frequently results in new loans at elevated interest rates to sustain their working capital. This reborrowing cycle demonstrates the precariousness of informal borrowing, as it often traps borrowers in a cycle of debt.

Informal Credit

In areas where formal credit is scarce, informal finance can help small and medium companies (SMEs), particularly in environments with limited access to formal credit. His survey of 102 Ethiopian manufacturing firms found that many SMEs when faced with formal credit constraints, turn to alternative informal finance mechanisms such as rotating savings and credit associations (ROSCAs), customer advances, and trade credit. While not ideal, these alternatives provided essential liquidity that helped SMEs maintain operations and grow despite limited access to formal financial institutions (Fanta, 2015).

In the Philippines, informal lending through the “5-6” system has been a prominent issue. According to a report by the Department of Finance (2017), over 200 informal lenders sought formal registration under Republic Act 9474 (Lending Company Regulation Act) as the government cracked down on usurious practices. The agency also advocated for increased financial literacy to protect citizens from predatory lenders and emphasized the need for formal banks to engage more with underserved populations.

Dula and Grego (2017) studied the informal lending practices in Tacloban City, focused on “5-6” lending among street vendors. Authors revealed that vendors were drawn to informal loans because they did not require collateral or documentation. However, while those loans often supported businesses and increased sales, the inability to repay led to significant stress and financial hardship for the borrowers’ households. This pattern of borrowing underscores the dual role of informal credit in sustaining and destabilizing small-scale business activities. Hamdan *et al.* (2019) identified several factors influencing loan default in informal credit markets. Studied 400 low-income individuals in Dhaka and found that loan size, interest rates, and the borrower’s circumstances (income level, education, age) were significant determinants of default. These insights are valuable for formal and informal lenders that seek to reduce default rates and improve financial discipline within their markets.

Archer *et al.* (2020) further explored the constraints Vietnamese SMEs faced in accessing formal credit and posited that many businesses turn to informal lenders due to the credit limitations imposed by the formal banking sector. Their study categorized businesses into three groups: (1) unconstrained, (2) constrained, and (3) partially constrained, with the latter being more likely

to rely on informal lending. Larger businesses or those with more substantial revenue streams were found to access higher amounts of informal credit, demonstrating that informal lending played a critical role in business operations, particularly for those enterprises that struggle to meet formal banking requirements.

Predatory Lending Practices

Alcott *et al.* (2021) investigated high-interest, predatory loans such as payday lending and their impact on borrower behavior. The study highlighted that inexperienced borrowers underestimated the actual cost of borrowing and frequently fell into cycles of debt. They argued that improved financial literacy and policies to promote better savings habits could help mitigate the adverse effects of such borrowing practices.

Mpofu and Sibindi (2022) examined the advantages and disadvantages of informal financing for SMEs in Africa. The authors claimed that while informal funding is critical due to the lack of access to formal banking, it often comes with exploitative interest rates and limited support for larger-scale investments. Although flexible and convenient, informal lenders may charge exorbitant rates, making it difficult for businesses to scale up without substantial financial backing from formal institutions.

Cheng *et al.* (2023) studied the interaction between informal and formal credit markets in Wenzhou, China. They found that informal credit markets complement the formal sector, mainly when formal financial repression exists. Cheng *et al.* (2023) indicated that informal lending rates are affected by loan maturity, collateral availability, and loan purpose, all of which have implications for policymakers who seek to reform financial systems in developing economies.

Informal Economy

Mercado (2018) provided valuable data on the economic conditions of street vendors in the Philippines that focused specifically on the motivations and challenges faced by vendors in Surigao del Sur. The study employed a descriptive quantitative approach and analyzed survey data from 87 local street vendors using percentage and weighted mean calculations. Findings revealed that most vendors were married women with secondary or higher education who had been street vending for one to three years. Income levels varied, with some vendors of break-even income, others earning less than 3,000 pesos, and many noticed a decline in revenue due to long working hours. Interestingly, 20% of respondents noted that they had reduced earnings after working over six hours daily. Additionally, vendors reported securing funding from cooperatives, local financial institutions, and alternative lending sources.

Angeles *et al.* (2019) explored the role of microenterprises in the Philippine economy and elucidated their significance in poverty alleviation and employment generation. The study surveyed 528 micro-enterprises and utilized correlation, regression, and mediation to examine the

role of microfinancing. Angeles *et al.* (2019) argued that while access to credit enhanced microenterprise growth, internal finance preferences among owners limited the expansion opportunities. Angeles *et al.* (2019) refuted that financial literacy and competitiveness training were more effective in promoting microenterprise success than access to finance alone.

Karlan *et al.* (2019) compared small-scale enterprises in the Philippines and India, and the study focused on high-interest loans from moneylenders. Their study spanned multiple experiments and examined 1,000 market vendors in Chennai, India, and 250 in Cagayan de Oro, Philippines. Karlan *et al.* (2019) proposed five remedies for debt dependency: high investment returns, temporal changes in vendor preferences, limited access to savings technology, lack of awareness about the long-term effects of high-interest borrowing, and the need for borrowing to smooth income fluctuations. Karlan *et al.* (2019) uncovered that those vendors borrowed continuously despite the provided financial education. This indicated a need for more profound interventions.

Santos and associates (2020) examined the spatial dynamics of street vending in the Science City of Muñoz, Nueva Ecija, Philippines. Santos and associates (2020) discovered that street vendors, who made up a significant portion of the informal economy, prioritized logistical factors and market attractiveness when they selected vending locations. They employed descriptive methods to profile vendors and analyzed the physical and customer service preferences influencing market competitiveness. Santos and associates (2020) recommended that specialized training for street vendors be provided to ensure community security, orderliness, and aesthetics.

Unni (2020) focused on the financial struggles of informal workers during the COVID-19 pandemic and called for a disaggregated approach to policymaking. Unni (2020) pointed out the importance of considering specific micro-contexts—such as worker and business characteristics—when devising short- and medium-term recovery strategies. Similarly, Bamu and Denish (2021) studied informal traders' challenges during the pandemic across various Asian countries, including the Philippines. The authors emphasized the absence of social protection, health safety measures, and legal inclusion for informal traders. They highlighted the punitive rather than supportive policies adopted by many governments during the pandemic.

In the global context of street food vending, Allison *et al.* (2021) reported the effects of the COVID-19 pandemic on food vendors. The authors compiled studies from cities such as New Delhi, New York, and Los Angeles, revealing how the pandemic threatened livelihoods and presented opportunities for reimagining urban spaces for microenterprise activities. The potential for resilience and adaptation was echoed by Chigudu (2021), who studied street vending in Zimbabwe. Despite local authorities' attempts to regulate vending areas to reduce urban congestion, street vendors persisted in central business

districts, even during the pandemic. Chigudu (2021) asserted the precarious balance between public health regulations and vendors' rights to economic survival.

Business Performance

Business performance in informal sectors also plays a crucial role in understanding the overall dynamics of street vending. Mckelvey *et al.* (2021) emphasized the importance of strategic marketing and building long-term customer relationships to ensure local food producers' success. Mckelvey *et al.* (2021) suggested that effective marketing strategies, especially those that foster close community ties, are key to sustaining profitable enterprises.

Sammot-Bonnici and Channon (2017) reviewed business pricing strategies and noted that firms must assess and analyze customer demand, competitors' pricing, and cost structures. These methods include markup pricing, target return on investment, and perceived value pricing. Kaushik (2019) further discussed how small businesses can enhance sales through up-selling and cross-selling, while Larsson and Tapper (2019) examined how dynamic pricing correlates with customer satisfaction and loyalty. The latter study highlights that customers may initially resist dynamic pricing but often adapt over time.

Dela Cruz and Dizon (2023) study assessed the personal well-being of dairy buffalo entrepreneurs in Nueva Ecija, Philippines, using the Personal Well-Being Index (PWI). Findings revealed that these entrepreneurs experience a normal level of well-being despite challenges in dairy farming. Their ability to sustain their livelihood is attributed to multiple income streams, including non-dairy farming and off-farm activities. Satisfaction with farm work, engagement in leisure activities, and financial stability contributed to their overall well-being. Moreover, cooperative membership and access to government support played crucial roles in maintaining economic resilience.

Finally, several studies studied financial management in small enterprises. Islam and Ullah (2020) examined the capital structure of multinational corporations (MNCs) and found that financial ratios like long-term debt and debt-to-equity influence profitability. Coral (2022) focused on inventory management in micro-enterprises in the Philippines and argued that effective inventory practices can significantly enhance profitability. Similarly, Shan *et al.* (2020) investigated bundling pricing strategies in green supply chains and showed how complementary products can attract consumers and increase profitability.

Policy Formation

A study by Stanikzai *et al.* (2022) discussed the administrative and economic reforms of Ghazi Khan, a ruler who modernized Afghanistan in the early 20th century. The reforms included establishing a structured tax system, introducing a national currency, implementing financial transparency through an audit office, and attempting to transition from a barter

economy to a cash-based system. Stanikzai *et al.* (2022) promoted infrastructure development, education, and industrialization.

MATERIALS AND METHODS

This study employed a convergent mixed-method approach (Creswell, 2021) to examine street vendors' borrowing practices and their implications on business performance. By integrating qualitative and quantitative data, the study provided a comprehensive understanding of informal borrowing within street markets of Cagayan de Oro, where financial constraints implied both measurable financial and entrepreneurial behavior of street vendors.

The study focused on 251 street vendors of legal age with outstanding balances from '5-6' lenders at Cogon Public Market, Cagayan de Oro City, Philippines. The locale was selected as it is a setting where both formal and informal vendors operated, and informal lending practices, such as the '5-6', are prevalent. The researcher developed the instrument, a survey questionnaire, to measure what the study intends to measure and to address the study's specific research problem directly. The instrument was translated from English to Cebuano for better comprehension by the street vendors. Moreover, before the data was collected, a verbal request for approval was

pursued, along with an informed consent form outlining the purpose of the study, a written request to participate, and a certificate of consent to conduct the study. It was also emphasized both verbally and in writing that participation was voluntary, and the respondents could disengage from the study at no cost.

Data analysis proceeded in three stages: thematic analysis for qualitative data, statistical analysis of survey responses using descriptive statistics, and a mixed-method synthesis.

RESULTS AND DISCUSSIONS

Informal Borrowing Practices

The data revealed street vendors' informal borrowing practices and financial management tendencies. As seen in Table 1, most street vendors borrow P1,000 to P5,000 (\$17.47- \$87.35) and P5,001 to P10,000 (\$87.36- \$174.69) making up 58.6% of the sample. This borrowing range suggested that while street vendors rely heavily on credit, they typically avoid very high amounts, likely due to the limited daily earnings. Interestingly, a smaller but notable proportion, 14.3%, have credit amounts exceeding P20,000 (\$349.41). This borrowing pattern may indicate a subset of street vendors with higher operating costs or more extensive business activities, requiring more significant capital inflows to maintain their operations.

Table 1: Frequency and Distribution Table of Street Vendors Informal Borrowing Practices

Informal Credit Value	Frequency	Percent
999 and below (\$17.45 and below)	7	2.8%
P1,000-P5,000 (\$17.47- \$87.35)	72	28.7%
P5,001-P10,000 (\$87.36- \$174.69)	75	29.9%
P10,001-P15,000 (\$174.71- \$262.04)	33	13.1%
P15,001-P20,000 (\$262.05-\$349.39)	28	11.2%
P20,001 and above (\$349.41 and above)	36	14.3%
Total	251	100.0%
Interest Rate	Frequency	Percent
15% and below	95	37.8
16%-20%	148	59.0
21%-25%	4	1.6
26% and above	1	.4
No idea	3	1.2
Total	251	100.0
Type of Interest	Frequency	Percent
Simple Interest	150	59.8
Compound Interest	0	0
Not Sure	101	40.2
Total	251	100.0
Payment Scheme	Frequency	Percent
Daily	231	92.0
Bi-weekly	5	2.0
Weekly	15	6.0

Monthly	0	0.0
Irregular	0	0.0
Total	251	100.0
Maturity of Loan	Frequency	Percent
1 to 2 months	199	79.3
3 to 4 months	29	11.6
5 to 6 months	23	9.2
One year	0	0.0
More than a year	0	0.0
Total	251	100.0
Penalties	Frequency	Percent
Increase of Interest rate	48	19.1
Fixed monetary penalties	2	.8
Loss of trust	4	1.6
No penalty	197	78.5
Total	251	100.0
Frequency of Reborrowing	Frequency	Percent
A day after the full payment	206	82.1
After a week	11	4.4
After a month	21	8.4
After a quarter	9	3.6
After six months	1	.4
After a year	3	1.2
Total	251	100.0

The interest rate structure within this borrowing framework was predominantly in the 16%-20% range, encompassing 59% of respondents, while 37.8% incurred interest rates of 15% or below. Only a tiny fraction (2%) faced rates above 20%, suggesting some restraint or standardization in informal lending interest rates.

Street vendors experience comparatively elevated borrowing expenses. The imposition of a 20% interest rate every two (2) months on street vendors and the requirement to repay the principal loan the next day posited that the actual interest rate exceeds 20%. Consequently, street vendors reborrow the day after repaying their prior loan, this affirmed that the yearly interest rates are +100%. Banko Sentral ng Pilipinas Circular no.1011 (2018) reported that the interest rate for loans, forbearance of money, products, or credits, and judgments in situations without interest rate contracts should only be 6% per annum.

Further, 1.2% of the vendors responded that they had “No idea” of the loan’s interest rates, which prompts concerns about street vendors’ financial literacy or openness in the borrowing process. Simultaneously, 59.8% incurred simple interest, whereas no responders encountered compound interest. Besides, street vendors have no alternative, as “5-6” lending is the only accessible source of financing. It may also indicate that street vendors favored straightforward, easily comprehensible, and calculable loan terms, mainly when they needed immediate cash without the intricacies

of interest computations. Likewise, street vendors frequently experience considerable economic pressure to obtain finances for daily operations, hence losing the privilege to make definitive choices.

The repayment and maturity structures within informal credit systems reflect a practical alignment with street vendors’ financial operations yet present substantial challenges. Most borrowers (92%) adhered to daily repayment schedules, corresponding to their routine cash inflows from daily sales. While this approach may align with the frequency of vendors’ income, it can become heavy on lower-earning days and possibly disrupt consistent payment ability. Additionally, the short duration of loan maturities is notable, with 79.3% of loans due within 1 to 2 months, a limited portion extending up to 6 months, and no terms surpassing one year.

The shortness of these repayment terms and daily payment requirements exerted substantial pressure on street vendors. Also, high daily financial outflows necessitated close revenue management, which often restricted the ability to accumulate savings as large portions of earnings were allocated to debt repayments. Furthermore, vendors frequently repay these loans immediately after receiving the principal, limiting the effective use of borrowed funds for their intended business investments. Consequently, a portion of the loan principal is quickly absorbed by the repayment cycle; this diminishes the overall financial utility of the loan and potentially impedes the vendors’

business growth and financial stability.

Finally, the observed patterns of penalties and reborrowing revealed the underlying social and operational structures within these informal credit relationships. Notably, 78.5% of street vendors faced no penalties upon default, which also exposed the heavy reliance on trust between lenders and the street vendors. Among the 19.1% who incurred penalties, an increase in interest rates serves not so much as punitive action but rather as a tactic imposed by the “5-6” lenders to encourage timely repayment. Furthermore, the high rate of reborrowing—82.1% of vendors took a new loan within a day of repaying a previous one—this revealed a dependence on continuous credit to maintain daily business operations. The informal borrowing practices of the street vendors illustrated street vendors’ reliance on ‘5-6’ lending for short-term financial survival and signals detrimental and potential risks of chronic indebtedness among street vendors.

Business Performance

Implication of Informal Borrowing to Pricing Performance of Street Vendors

As shown in Table 2, despite high interest rates associated with “5-6” loans, street vendors largely avoided price reductions, or “bagsak presyo,” to attract immediate cash flow. Street vendors still uphold market-driven prices even when faced with financial stress and recognized that significant price adjustments could compromise their competitive standing and relationships with loyal customers or “suki.” While street vendors occasionally adjusted prices in response to borrowing pressures, mainly through discounting, most resisted lowering prices substantially to manage debt. This elaborated that street vendors valued their product’s perceived quality and market stability over potential short-term relief from debt pressures.

The study’s findings support Wongtada (2014), who

Table 2: Pricing Tactics of Street Vendors

Pricing Tactics	Mean	Interpretation
1. ...adjusting my price accordingly to remain competitive.	2.13	Occasionally
2. ... I needed to adjust my pricing for these higher interest rates.	2.18	Occasionally
3. ... I offer discounts	2.71	Often
4. ...setting different price for bundled products.	2.55	Often
**5. ...I feel pressured to set lower prices	3.16	Never
Tactics Overall	2.55	Often

claimed that street vendors set prices based on what the market can bear, maintained fixed prices due to customers’ infrequent price reductions, and kept prices at par with other vendors to avoid competition. According to Triani (2023), perfectly competitive markets sell similar products. Thus, the market sets the whole price.

Implication of Informal Borrowing to Inventory Management of Street Vendors

Informal borrowing (as shown on table 3) allow vendors to maintain and, in some cases, expand inventory during peak sales periods, exemplified by the New Year

season when demand and potential profit margins peak. Vendors can increase product variety and stock levels with borrowed funds, thus meeting customer demands and optimizing sales potential. However, this reliance on external funding reveals the absence of internal capital for inventory expansion, accentuating a dependency that may hinder vendors’ autonomy. While informal loans serve as a financial bridge during high-demand periods, their cyclical repayment requirements limit the vendor’s ability to sustain this inventory during off-peak periods, potentially threatening business continuity in the long term.

The findings validate Cordial’s (2020) claim that Filipino

Table 3: Inventory Management of Street Vendors

Inventory Management	Mean	Interpretation
1. I have used the borrowed funds from “5-6” to purchase more stock/inventory, thus increasing my product variety.	3.50	Always
2. Borrowing from “5-6” allows me to stock up on inventory during the peak seasons to meet increased demand.	3.59	Always
3. Since I have funds acquired from “5-6”, I was able to take advantage of purchasing inventory in larger quantities and benefiting from lower unit costs	3.39	Always
4. With the funds acquired from “5-6,” I could adapt to market trends and demands by investing in new inventories that customers prefer.	3.37	Always
5. ** Since I accumulated significant debt burdens from 5-6, I struggle to maintain enough inventory.	3.39	Never
Overall	3.45	Always

microbusinesses use inventory management without knowing it. Micro-firms comfortable with basic inventory can maximize sales and arrange operations for adequate returns.

Implication of Informal Borrowing to Perceived Increase in Net Income of Street Vendors

Street vendors perceive borrowing from “5-6” lenders as an aspect of enhancing profitability, with empirical data showing that vendors often report increased sales and revenue following the acquisition of loans. However, the study identified “profitability under pressure” due to high interest rates and frequent repayment schedules. This posits that street vendors acknowledge that while short-

term profitability is achievable, sustained net income growth is hampered by repayment obligations that reduce retained earnings, impeding potential reinvestment. The findings suggested that vendors could attain higher net incomes street vendors reduced dependency on informal borrowing and redirected earnings into business development.

Indira and colleagues (2021) found that street vending comforts much of the informal economy’s labour. Street vending provides short-term profits and allows the reduction of poverty despite little investment and trading under deprived conditions. Nevertheless, the analysis contradicts Dula and Grego’s (2017) claim that the “5-6” loan increased merchants’ sales and profitability.

Table 4: Net Income of Street Vendors

Net Income	Mean	Interpretation
1. Borrowing from “5-6” makes me more profitable.	3.48	Always
2. Through borrowing funds from “5-6,” I can sell more products that would lead to more profit for my business	3.53	Always
3. After I borrowed funds from “5-6,” I observed that I was generating more cash than I was spending, which suggests I was making a profit.	3.45	Always
4 Because I borrowed funds from “5-6,” I expanded my operations and am experiencing income growth.	3.43	Always
5** The high interest rate of “5-6” makes my net income lower/meager.	3.34	Occasionally
Overall	3.45	Always

Implication of Informal Borrowing to Increase Gross Sales of Street Vendors

Street vendors attribute informal borrowing to improved gross sales, facilitated by enhanced cash flow stability and the ability to increase inventory in response to demand fluctuations. Data indicate that vendors who borrow from “5-6” consistently report an increase in sales volumes, owing to the immediate availability of funds to purchase inventory. However, reliance on debt to fund inventory purchases can lead to long-term financial strain, particularly when market conditions fluctuate

or product demand shifts unexpectedly. The perceived positive impact on sales growth undermines fundamental vulnerabilities that may compromise financial well-being if the debt obligations of the street vendors are not strategically managed.

The implication dispute Bach, Le, and Bui’s (2020) claim that informal borrowings positively impact micro and small enterprises’ sales and investment activities. They disclosed that firms that acquire more informal borrowings could sustain their operational cycles and increase their sales volume.

Table 5: Gross Sales of Street Vendors

Gross Sales	Mean	Interpretation
1. ... sales volume increase.	3.67	Always
2. Borrowing from “5-6” smooths out my cash flow; improved cash flow can contribute to more stable sales.	3.57	Always
3. The flexibility of my debt from “5-6” allows me to negotiate payment terms when sales are low.	3.35	Always
4. The funds borrowed from “5-6” do not hinder gross sales growth.	3.41	Always
5. **My dependency on “5-6” as source funds resulted in my decreasing sales	3.48	Never
Overall	3.49	Always

Implication of Informal Borrowing to Selling Techniques of Street Vendors

Informal borrowing stirred street vendors’ selling techniques, particularly in enabling flexible pricing and inventory management approaches tailored to specific

market conditions. It was shown that vendors adapt their sales tactics, such as offering bundled products and discounts, to balance the dual demands of attracting customers and managing debt. However, while these tactics provide vendors with temporary advantages, it can

lower perceived product value over time as customers begin to expect continuous discounts. Ultimately, this compromises the vendors’ pricing power, a key element of their market positioning.

The analysis confirms Santos and colleagues (2020) findings that street vendors’ physical preferences are logistical and market attractiveness-oriented. Like Cavazos-Arroyo and Puente-Diaz’s (2022) study, dynamic selling capabilities boost business performance, including flexible, customer-centric, and interpersonal

selling methods. The study also corroborated Elsayed’s (2022) finding that street vendors are skilled at picking good locations to sell their goods and using their area efficiently. Street vendors’ accessibility helps customers buy their products.

Street Vendor Stories

This section presents the qualitative themes that emerged from in-depth interviews with the ten street vendors.

Table 6: Selling Techniques of Street Vendors

Selling Techniques	Mean	Interpretation
1. ...selling products that are popular or high-margin items more prominently to attract customers.	3.41	Always
2. ...I actively use upsells, like selling combo products or providing special add-on upgrades and upsizing to increase sales.	3.21	Regularly
3. ...I prioritize establishing “suki” through greeting with a friendly “hello,” personalized service, friendly interaction, and pleasant expressions.	3.72	Always
4. ...,” I strategically position my stalls in high-foot-traffic areas with a high concentration of potential customers.	3.68	Always
5. ** ...I stagnated, lost competitiveness, and could not keep up with changing customer preferences.	3.42	Never
Overall	3.49	Always

Table 7: Key In-depth Interview Participants Background Information

KII Theme	KII #	Sex	Age	Business	Estimated Daily Sales	Estimated Daily Profit
Exploring Informal Borrowing Amidst Financial Exclusion	1	Female	45	Vegetables	P3,000 (\$27.95)	1,000 (\$17.47)
Variance in Usage of the Borrowed Funds	2	Male	45	Flowers	8,000 (\$139.75)	3,000(\$52.41)
	3	Female	63	Rice Cakes	1,600 (\$27.95)	800 (\$13.97)
The Implication of Larger “5-6” Credit Value to Profitability	4	Male	42	Dried Fish	4,000 (\$69.87)	1,500 (\$26.20)
From Loan to Legacy: Long-term Viability of Business	5	Female	63	Sweet Corn	2,000 (\$34.93)	500 (\$8.73)
Challenges of Street Vendors	6	Male	57	Phone Accessories	1,500 (\$26.20)	1,000 (\$17.47)
	7	Female	43	Tobacco	2,000 (\$34.93)	1,000 (\$17.47)
	8	Female	38	Fruits	2,500 (\$43.67)	1,000 (\$17.47)
	9	Female	35	Street Food/ boiled quail eggs and tempura	3,000 (\$52.40)	1,000 (\$17.47)

Explored Informal Borrowing Amidst Financial Exclusion

Despite outward signs of surviving businesses, many street vendors experience ongoing financial exclusion. Vendors themselves as being marginalized by formal financial institutions, which often view their operations as too minor or their backgrounds as inadequate for services. A vegetable vendor, 45, who sells daily in the Cogon public market with an estimated average of Php 3,000 (\$52.40) in sales, illustrated this challenge:

“I am a 45-year-old vegetable vendor. With family needs, bills, and children in school, I really struggle to address our financial demands. My husband, a carpenter, has irregular job. During lean times, I have often had to skip meals to prioritize our children. I tried to borrow from banks, but banks refused my loan applications, likely due to my limited education and low-income. While cooperatives require savings before lending, saving is a luxury I can rarely afford right now. And once upon a time, a street vendor introduced me to the “5-6” lending

system, managed by local informal lenders. My lender, a Bombay, was willing to provide a small loan. I really took it gratefully; I needed it, and it allowed me to sell vegetables that would not spoil easily. I was able to improve my business too and managed to produce mixed vegetable packets (sari-sari) and spices to attract more customers. Now, my daily profit is around Php 1,000 (\$17.46). My lender also understands if sometime I cannot pay the loan. And, although costly, the “5-6” scheme has been my only lifeline, allowing me and my family a sense of stability.”

Variance in Usage of the Borrowed Funds

Street vendors borrowed funds were used differently, and this reflected their unique financial obligations. Some allocated loans toward business growth, while others meet personal financial needs. A flower vendor, for instance, relied on informal “5-6” loans to sustain his high-demand, capital-intensive business, especially during celebratory events. For him, the flexible repayment structure of “5-6” has been essential in accommodating fluctuating sales and cash flow.

In contrast, a senior vendor selling rice cakes allocated only about 25% of her loan to business needs, using the majority to cover her son’s tuition fees and household expenses. She valued “5-6” loans to maintain her small business and support her family.

The Implication of Larger “5-6” Credit Value to Profitability

The impact of “5-6” loans on profitability differs with loan amounts. Street vendors who borrowed smaller amounts (e.g., Php 5,000/ USD 87.35) generally found manageable repayment schedules that supported their working capital without undue risk. Larger loans, however, can impose substantial pressure due to the compressed repayment timelines and daily obligations, particularly for those requiring higher capital, as shared by a dried fish vendor who faced intense financial strain due to high daily repayments on a substantial loan.

The dried-fish vendor’s narrative revealed how “5-6” lending, while vital for many vendors, presents both opportunities and challenges. Informal lending’s flexibility and accessibility are valued, yet larger loans can restrict profitability, accentuating the need for adaptable repayment terms that align with vendors’ diverse operational demands.

From Loan to Legacy: Long-term Viability of Business

For many street vendors, “5-6” loans are more than a financial resource; they provide an immediate pathway toward socioeconomic improvement and entrepreneurial growth for some vendors. For one vendor, a 63-year-old vendor of sweet corn, informal borrowing has been instrumental in sustaining her business, supporting her children’s education, and securing daily household needs. “I have sold sweet corn for decades, and relying on ‘5-6’ has enabled business continuity and improvement of my

family. Through my earnings, all my children graduated college. Recently, I expanded my business by hiring three additional street vendors to cover more locations around Cogan; this enhanced both my profits and job opportunities. The friendships formed with regular customers (“suki”) also contributed to the business’s longevity. This legacy reflects how ‘5-6’ has been a sweet source of growth for me.”

Challenges of Street Vendors

Street vendors faced numerous challenges beyond financial exclusion and high-interest informal borrowing, with external factors like weather fluctuations, regulatory restrictions, limited operational hours, and market conditions often threatening their business continuity. The weather posed dual threats: rainy seasons slow sales and expose vendors to health risks, while extreme heat damages products and depletes energy levels, as a 57-year-old phone accessory vendor shared.

“While ‘5-6’ loans sustained my phone accessory business, changing weather impacts my profits and stock quality. Rain damages my products displayed on concrete streets, and extreme heat causes deterioration. Moreover, I rely on flashlights at night without electricity, making it hard for my customers to see the accessories. Despite pollution and health risks, I continued my business and lent from “5-6” because I had no choice.

Street vendors faced regulatory challenges, from product confiscations to restricted operating hours. A tobacco vendor recounted enduring both physical strains from preparing hypo bleach and the devastating impact on her family’s health due to prolonged chemical exposure, while a fruit vendor, repeatedly fleeing authorities to avoid penalties, shared daily tactics to avoid detection or run away from authorities.

“Authorities often restrict us, forcing us to take risks by vending earlier than set hours. When regulators arrived, we just quickly packed up and hid. We have no choice but to outsmart and overcome these challenges”.

A street vendor selling street food also recounted the constraints of designated vending hours and locations, which, though regulated by the market administrators, still limited daily sales.

These narratives align with the findings of Karunaratna and Tjandra (2021), who describe how location issues, minimal government support, and limited financing severely restrict growth and operational stability. Through resilience and adaptability, street vendors continue to pursue economic stability and growth despite financial, regulatory, and environmental challenges, underscoring their reliance on informal credit networks for survival and mobility.

Discussion

This study investigated the informal borrowing practices of street vendors with specific objectives:

1. To explore the prevalence and terms of informal borrowing, including the interest rates, repayment

schedules, and loan cycles that defined this practice;

2. To examine the perceived implications of informal borrowing on vendors' business operations, including pricing tactics, inventory management, and profit generation;

3. To capture vendors' narratives regarding their experiences with "5-6" loans, revealing the challenges and motivations underlying their reliance on informal credit. Through research objectives, the study revealed that street vendors frequently obtain small loans, typically 5,000 and 10,000 pesos ((\$87.36- \$174.69), from informal lenders at interest rates exceeding 20% over two months, with clear awareness of the terms and high repayment costs. Despite minimal penalties for defaulting, vendors are often locked in a continuous cycle of reborrowing immediately after repaying, highlighting both the restrictive repayment timelines and short loan durations that define their borrowing practices. The necessity to allocate borrowed funds for business and personal use creates financial strain, as repayments typically begin the day after funds are issued.

Additionally, street vendors view informal borrowing as beneficial to their business functions, influencing their pricing, inventory, gross sales, and strategies to maintain net income. Findings suggest street vendors apply adaptive, tactical approaches to these financial areas, although high borrowing costs limit the potential for business expansion. Instead of allowing for growth investments, vendors' resources are channelled toward offsetting borrowing expenses, constraining the overall opportunity for upward mobility.

While vendors perceive informal borrowing as a critical factor in sustaining operations, statistical data indicates a discrepancy between this perceived success and actual business outcomes. Vendors remain economically stagnant, mainly due to dependency on high-interest loans that are challenging to repay, given their repayment schedules' immediacy. Despite this, street vendors exhibit resilience and adaptability, maintaining daily operations despite limited financial resources.

Mainly, the narratives of street vendors reflect the dual struggles of financial exclusion and resilience in the informal credit market. Despite their significant contributions to local economies, vendors remain largely excluded from formal financial services, making them reliant on "5-6" loans. The need for funds encompasses business capital and personal expenses, revealing a complex interplay between sustaining operations and enduring short-term, high-cost borrowing limitations. For many vendors, informal loans enable socio-economic contributions, such as supporting family investments; however, the cycle of informal lending ultimately constrains long-term financial autonomy. The findings suggest that while informal borrowing provides temporary relief, it perpetuates dependency and limits the broader economic growth of street vendors, who are bound to a repetitive cycle of informal debt.

CONCLUSIONS

Findings support the Resource-Based View Theory of Edith Penrose (1959). Specifically, street vendors demonstrated resilience and adaptability despite various limitations, including exorbitant interest rates, tight payment deadlines, restricted capitalization, market infrastructure and traffic regulations, weather, and fluctuating market conditions. Nevertheless, they managed to sustain their competitive position and market presence by ensuring consistent operations. Crucially, the borrowed funds from "5-6" lenders provided immediate liquidity—a valuable resource under the Resource-Based View—enabling uninterrupted vending activities. Likewise, their capability to meet short-term financial needs highlights the role of non-substitutable resources in maintaining operational efficiency.

Building on this perspective, the study's findings align with the notion that firms create economic value not merely by possessing resources but by effectively and efficiently managing them, as emphasized in Penrose's (1959) RBV framework. Despite their vulnerability, challenges, and constraints, street vendors leveraged informal credit to ensure business continuity, illustrating resource optimization in the face of adversity. Given these insights, applying the policy reforms proposed by Stanikzai *et al.* (2022) could offer structured solutions. Specifically, the Philippine government could introduce formal registration systems for street vendors, provide financial literacy training, and implement fair taxation policies to integrate them into the formal economy. Moreover, investment in microfinance programs and designated vending zones would further enhance economic stability while mitigating vulnerability. Moreover, relating to Dela Cruz and Dizon's (2023) study on dairy buffalo entrepreneurs, street vendors rely on multiple income sources, such as informal credit and seasonal sales, to maintain business stability. Street vendors' well-being could improve through structured support systems, including cooperative membership, financial education, and access to formalized microfinance programs.

However, this study also encountered several limitations that constrained the depth and scope of the analysis. A key challenge was assessing profitability and revenue growth, as most street vendors lacked formal record-keeping and adequate accounting practices. Additionally, the scarcity of existing literature on the implications of informal credit—particularly "5-6" loans within the street vendor sector—posed another constraint. Although the study employed a mixed-methods approach by integrating quantitative data with qualitative insights, the analysis remained primarily descriptive, potentially affecting the rigor and generalizability of the findings.

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