

PRENDA SYSTEM IN A PHILIPPINE AGRICULTURAL COMMUNITY

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ABSTRACT

Prenda is a local credit system which involves temporary transfer of ownership of any property intended to secure the performance of some act, such as the payment of money or the like by the grantor or mortgagee, and which becomes void if the act is not performed agreeably on the terms prescribed by both parties. Interviews and nonparticipant observation conducted among 90 respondents of barangay Talisay, Hilongos, Leyte comprising 46 mortgagors and 44 mortgagees together with 10 key informants revealed 8 different forms of *prenda*. Traditional rules still bound the *prenda* system as shown in the practice of fixing no definite maturity date and no written form of agreement. Mortgagors were expected to take possession of mortgaged lands and supply the necessary farm labor, in addition to their responsibility of paying taxes for the mortgaged properties. The schooling of children was identified as the main reason behind the *prenda* practice with the wife's decision dominating the idea of engaging in *prenda*. Generally, the relationship between mortgagor and mortgagee was perceived as good. Most noteworthy among the changes that had taken place with the *prenda* system was the existence of *prenda sa kusog*. It is a nonmaterial mortgage wherein one's labor in terms of one's capacity to produce is being mortgaged to somebody, payable in terms of the products that one can get or raise from his labor. A great bulk of the *prenda* money was spent on day-to-day expenditures, schooling of children, agricultural production, land purchases and capital for business. *Prenda* was the most preferred source of capital or credit. *Prenda* system and the bank were similar only in their function of financial assistance, with the bank perceived to be having more disadvantages than the *prenda* system.

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KEY WORDS: *Prenda*. Credit system. Children's education. Priority expenditure.

INTRODUCTION

Increasing the level of self-sufficiency and the production output of most people in the rural areas can be achieved through the various rural institutions and other patterned behavior which could facilitate the people's capacity to meet their needs. Various institutions significantly contribute towards the realization of development. Although many rural institutions play multi-dimensional roles in development and provide understanding of the behavior of rural people, an investigation of the *prenda* system existing in most of the rural communities is important. It is one of the most traditional lending institutions that offer help and had been extensively utilized by rural households as source of capital. Various financial benefits have been derived from *prenda* which are instrumental in augmenting family income as well as in engaging various productive farm and non-farm activities.

This study tried to: (1) identify and describe the various forms of *prenda* existing in an agricultural community and determine the most commonly practiced forms, terms of contract and relationship between mortgagor and mortgagee; (2) identify some changes taking place within the *prenda* system in the last 10 years and the factors influencing such changes; (3) investigate the utilization of money obtained from the *prenda*; (4) determine the consequences of the *prenda* system with regard to employment, income

distribution and productivity among the rural households; and (5) make a comparison between the *prenda* system and the formal credit system.

METHODS

Data collection by interview and nonparticipant observation was conducted in barangay Talisay, Hilongos, Southern Leyte. Aside from the barangay's accessibility to land transportation, it has the greatest number of households where majority is engaged in farming. It has also practiced the *prenda* system extensively.

The key informant survey was used in identifying the various forms of *prenda* and the most commonly practiced form, their length of practice, the manner of operation, and the changes occurring in the *prenda* system for the last ten years.

Key informants were chosen based on length of residence and status in the barangay, knowledge and involvement in *prenda* and articulateness. A complete enumeration of 376 households which were engaged in *prenda* was made. Ninety households comprising 44 mortgagee respondents and 46 mortgagor respondents were interviewed. They were chosen based on the number of properties placed under *prenda* by mortgagors and properties received by mortgagees. This constituted 24% of the total number of households in the barangay.

A list of expenditures made from

the money obtained through *prenda* was gathered from mortgagor-respondents with the use of the interview schedule. An assessment of the consequences of the *prenda* system with regard to employment, income distribution and productivity was gleaned from mortgagor and mortgagee respondents. Data on how the *prenda* system compared with, complemented, or supplemented the existing formal credit system were also obtained from both groups.

Percentages, means or averages, and frequencies were used to describe the demographic characteristics of respondents and the measurable aspects of the *prenda* system, like the number of properties placed under *prenda*, the amount of interest charged, expenses defrayed with the money obtained from *prenda* and the usual amount demanded by mortgagors and given by mortgagees.

RESULTS AND DISCUSSION

The Practice of Prenda.

Two general types of *prenda* were disclosed by mortgagor and mortgagee respondents, namely: land or real estate *prenda* and the nonreal estate *prenda* in the form of plant or tree *prenda*, animal, jewelry, appliance, machinery, vehicle and kitchenware *prenda*. Among mortgagor respondents, *prenda* was not limited to the offer of land as collateral but on any property available and acceptable by mort-

gagee. However for both categories of respondents, land was the usual form of collateral offered.

Although *prenda* has been an old practice among barangay inhabitants, adoption of the practice was only made recently. There was no definite redemption date for most *prenda* executed. The duration of the *prenda* depended in most cases upon the mortgagor's ability to redeem the property. However for the determined *prenda*, the length was usually fixed at 5 years or more with some modifications of its terms depending on the agreement between the mortgagor and mortgagee.

The financial requirements for the schooling of children was the main reason advanced by mortgagees for mortgaging their property. On the other hand, mortgagees received *prenda* due to availability of money and the desire to secure other source of family income. Financial aid from the children was mentioned to be utilized by some mortgagees (16%) in receiving *prenda* while mortgagor respondents (32%) made use of their children's money in redeeming mortgaged property.

The involvement in *prenda* among mortgagor respondents was the wife's initiative. On the other hand, engaging in *prenda* among mortgagee respondents was a joint decision of husband and wife.

In most cases, the amount needed by the mortgagor determines the amount granted by the mortgagee. The mortgagee respondents entertained no fear of

losing in the business since the amount demanded by the mortgagor was never more than the actual value of the property offered as a collateral. Some *prendas* were without fixed dates of redemption and without written forms of agreement. However, majority had forms of agreement based on the decision of both mortgagor and mortgagee, and both kept a copy of the contract. The reason advanced by both respondents as to the indefiniteness of the agreement was solely based on each other's trust, honesty and sincerity.

The interest on money borrowed was not an essential element in *prenda*. It might or might not be charged depending on the agreement between mortgagor and mortgagee.

Usually, only one property was offered by mortgagors and received by mortgagees under *prenda*. A hectare and a half of land constituted the usual size mortgaged and received. Bigger lands were more welcome by mortgagees while smaller sizes were more favored by mortgagors who felt that the mortgagee could profit more with bigger land size and which they found hard to redeem. All rules related to the *prenda* were formulated by both mortgagor and mortgagee.

Both categories of respondents were unanimous in saying that it was the responsibility of the mortgagor to pay the taxes due on mortgaged properties. On the other hand, most mortgagees were perceived to generally receive the

harvest from mortgaged land.

A sound relation existed between mortgagor and mortgagee. Each assessed the other favorably. Mortgagees were predominantly assessed as kind and considerate while mortgagors were chiefly regarded as good.

Changes in the Prenda System.

Almost an equal number of mortgagors preferred either the 1970 and the 1980 *prenda* system. However, one mortgagor cited that the 1970 *prenda* system was better than the 1980 *prenda* system because the former was not limited to land *prenda* alone but extended to other properties as well. Although no rule existed as to the prohibition of nonland *prenda* in 1980, almost all *prenda* executed was on land *prenda*. This could be explained by the fact that the price of land had gone up with the increase in prices of commodities and with the scarcity of money. Hence, land was the most appropriate form of collateral to be offered.

More or less similar reasons for borrowing money or placing property under *prenda* were observed for 1970 and for 1980. Expenses for food, clothing and various household expenditures; agricultural production; and for the construction of residential house were met through the money obtained from *prenda*. The schooling of children was the main reason for mortgaging property both in 1970 and 1980. Death

expenses, however, was a significant reason in 1970. This was not mentioned as a reason in 1980. This may be due to people's awareness of the tightening financial situation in the 1980s.

Prenda sa kusog which was not practiced in 1970 was mentioned in 1980 because of the scarcity of land and the pressing need for money among small farmers whose share as tenant was placed under *prenda*. *Prenda sa kusog* was characterized as short-lived since after every harvest of the crop on the mortgagor's tenanted land, the amount borrowed had to be paid back.

Competitors in the lending business rose in number. The individual moneylenders became the mortgagee's stiff competitors in 1970 while the bank and the individual moneylenders were his rivals in 1980.

The average amount of money granted by mortgagees was ₱2,093.52 for both the 1970 and 1980 *prendas*, with some *prendas* received in bigger amount in 1980. This was because most of the 1980 *prendas* were land *prendas* while the 1970 *prenda* covered almost any kind of property.

Consequence of Prenda on Employment, Productivity and Income of Respondents.

About 54% of mortgagor respondents and 84% of mortgagee respondents got employed as a consequence of the *prenda* system. Among mortgagors who had been involved in *prenda*, more than one-

half (56%) was hired as tenants while a little less than one-third (32%) was taken as hired laborers and 12% was taken as sole cultivators of their mortgaged lands for sometime.

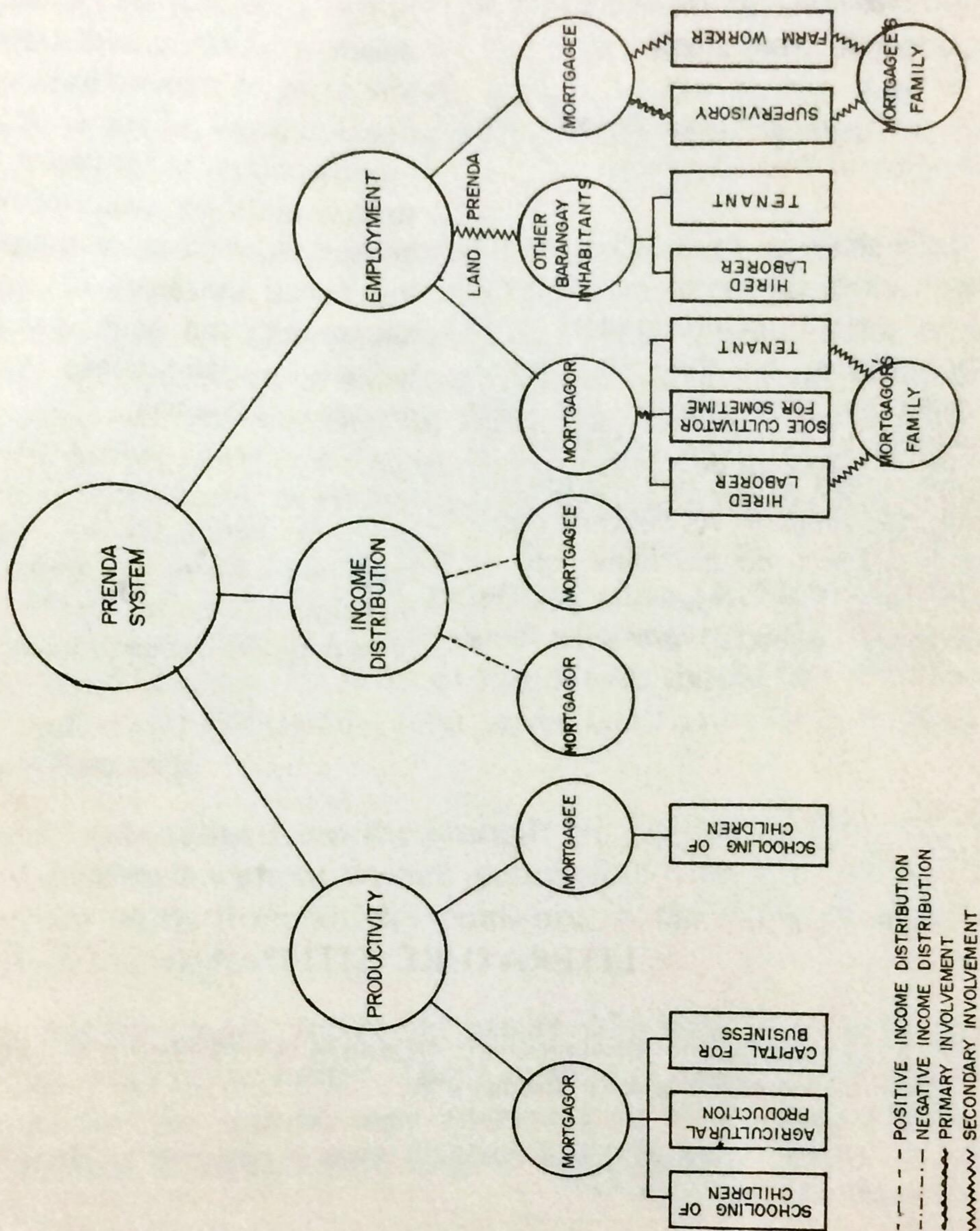
Involvement in the *prenda* was reflected by a majority of respondents. Employment opportunities (Fig. 1) also extended to other family members as shown by a majority (64%) of children and a combination of wife and children participating in farm-related activities. Some barangay inhabitants were also hired as laborers or as tenants. Because of the benefits of the *prenda* in the barangay, majority (84%) of mortgagees and mortgagors expressed their support for the continuation of the practice.

In terms of productivity, only 24 mortgagors (50%) who had mortgaged a total of 32 properties were found to have engaged in some productive work. The most significant projects undertaken with the use of money obtained from *prenda* were the schooling of children, agricultural production and business. Savings in terms of *pamutang sa humay*¹ and investment in other forms of business had provided some form of employment for farmers who lacked the capital and as an additional income for the mortgagees.

With regard to income distribution, the *prenda* system provided

¹ A form of saving or investment wherein a particular sum of money is lent and borrower has to pay the amount in terms of rice harvest.

Fig. 1. A diagram showing the consequences of prenda system on the productivity, employment and income distribution among mortgagor and mortgagee respondents.



sources of income or capital especially among the mortgagees who had experienced positive change in income with 30% experiencing a change in status. Unfortunately, *prenda* resulted in a wider gap in terms of status and income increment between the mortgagor-mortgagee respondents.

Comparison Between Prenda and the Formal Credit System.

Prenda was preferred over the bank as a source of capital by a great majority of mortgagors while mortgagees, on the other hand, chose the bank. While the bank seemed to be more accessible to mortgagees, only a few mortgagors reported similarly. As debtors, mortgagees preferred the bank, but as creditors, they chose the *prenda*. Ordinary debtors preferred the

prenda. These differences in preference can be attributed to convenience, ease and applicability to one's status.

The *prenda* was also regarded as wider in scope or applicability by both respondents because any property could be accepted as collateral, one could borrow for any form of expenditure, and one could borrow anytime. It offered prompt and more convenient service to its debtors and was also regarded as less discriminatory than that of the bank. In terms of rules and regulations, the bank was characterized by definiteness while the *prenda* was flexible.

The *prenda* was unanimously perceived as beneficial. It was however perceived as disadvantageous by some mortgagors while no single mortgagee mentioned any of its negative consequence.

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