# 82 Times Effective Annual Return – A Case Study Of Siam Moneylenders

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## ABSTRACT

Dressed in a loose shirt and formal trousers, these Indian moneylenders are fueling small enterprises in the streets of Bangkok. Mostly belonging to Gorakhpur district of eastern part of India, they are popularly known as *Bang* by the local Thai people and the moneylending business is known as *Gunku*.

The author while on a visit to Bangkok came in touch with these people. Anybody into the trade who has an established client base and running it properly must be earning a return of 15-60% monthly return on his investment.

Although these people call it a 20% per month rate of interest, we are going to see how this simple looking 20% interest if converted into effective interest rate, could turn up to be as high as 1.21908 % per day which if compounded annually, is equivalent to roughly 82 times on the investment.

**Keywords:** *Gunku*, Illegal moneylenders, Money-lending, Indian moneylenders in Thailand

## INTRODUCTION

Anyone from Gorakhpur wanting to enter into this business will contact one of his friend/family member already in Bangkok who would assist him initially. The person will usually start with selling small snacks/cloth items on bicycle to households and small shopowners in the nearby area. This will help him get familiar with people in the locality and also learn Thai language (as most Thai people do not speak English). He then starts off with lending small sums to shopowners/vendors and establishes his circle.

Once in full operation, he will usually travel on motorbike/scooter to collect his daily sum of return from borrowers.

A typical amount lent will attract 20% interest in a month, however this amount will need to be paid on a daily basis. So a sum of 5000 Baht will need to be repaid by a daily installment of 200 Bahts for next 30 days (thus amounting to 6000 Bahts or 120% of the original sum).

A generalized formula for the amount of installment can thus be calculated as below:

Daily repayment installment = (Original Amount x 1.20)/30

Thus we can see that this is similar to a loan borrowed from the bank being paid out in daily installments.

Our main objective in the section below will be to calculate the effective rate of interest based on the series of cash inflows and outflows.

## LITERATURE REVIEW

Illegal moneylending is very common with many low-income Thai nationals. The Oxford Business Group (2016) reads 'For upto 2m low-income Thais the situation is even more of a challenge, as they routinely turn to off-system money lenders if they cannot access legitimate credit. Loan sharks, illegal pawn shops and gold shops are the most common avenues, with off-system interest rates ranging from as low as 3% per month on illegally pawned gold, to as high as

1% or 2% per day for loan shark borrowing – far beyond the 36% annual legal limit for effective interest on nano-loans'. This seriously highlights the exorbitantly high interest rates prevailing in the black market.

Although a lot of Indian entrepreneurs in the form of restaurant owners and shopkeepers are working in many parts of Thailand, some are involved in the moneylending business. They have deteriorated the image of Indian immigrants in the country.

The money-lending and 'Din-Daeng' activities of the Indians have also caused certain amount of distrust among working class Thais(Sandhu & Mani, 1993).

Thayer(1956) quoted 'One reason, I am convinced, is that they do not like or trust or respect the Indians living among them. In countries where Indians are less numerous, such as Thailand, Cambodia and Vietnam, the Indian moneylender and shopkeeper produce the same kind of emotional response'.

## METHODOLOGY

We will examine a sample transaction, which in this case is similar to actual operation by many of these people. 5000 Baht (the currency of Thailand) is lended by the borrower to a shopkeeper for a monthly interest of 20%. In return he will receive 200 Baht each day for next 30 days totaling up to 6000 Baht (and hence the 1000 Baht or 20% nominal interest).

On closely examining above transaction and using financial formulas we can have an equation of value for cash inflow and outflow.

A value of equation assumes that the present value of outflow and inflow to be same. Hence we make a equation to equate the present value of the series of cash flow.

Hence our equation of value can be put down as:

$$5000 = 200 \; a_{\overline{30}} \qquad\qquad (1)$$

where $a_{\overline{30}}$ is an annuity which represents the present value of 1 unit received each day for next 30 days at some effective interest rate 'i' per day. The equation is similar to the equation of a car/housing loan.

Since it is an annuity, it can be expanded as below:

$$a_{\overline{30}} = \{1-(1+i)^{-30}\} \div i \qquad\qquad (2)$$

The value of $a_{\overline{30}}$ can be substituted from equation 2 to equation 1.

$$5000 = 200 \; x \; [\{1-(1+i)^{-30}\} \div i \;] \qquad\qquad (3)$$

On solving equation 3 using approximation and linear interpolation, we find that the daily effective interest rate 'i' comes to 1.21908 which if compounded yearly will yield a return of 8232 percent.

$$1.0121908^{365} -1 = 82.32$$

Thus the annual effective interest rate will be 8232%.

## RESULTS & DISCUSSION

From above calculation, we can we can see that an investment of 1 Baht would yield 82.32 at the end of 1 year. This can also be called as 8232% annual effective return.

This is an ideal assumption where everything that is being earned is being reinvested (which in most scenarios is not feasible) apart from the fact that there are expenses associated with daily cash collection & receiving. Interestingly the business is not legal in the country specially for a foreigner who is holding a temporary visa.

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