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REVISITING RURAL BORROWING BEHAVIOR: THE RESULTS OF THE SURVEY ON SMALL FARMER AND FISHERFOLK INDEBTEDNESS 2000[1]

The Small Farmers and Fisherfolk Indebtedness Survey is a continuing biennial activity conducted by the Agricultural Credit Policy Council (ACPC) to verify the pattern of borrowing incidence, demand for credit, and possible constraints to loan access and repayment among small farmers and fisherfolk. For a before-and-after analysis, the fourteen provinces (representing 14 regions of the country) selected during the previous survey were again used.

DISTRIBUTION OF RESPONDENTS BY AREA

Area	Respondents		Total
	Borrower	Non-Borrower	
Luzon			
Benguet	56	14	70
Cagayan	47	23	70
Pangasinan	52	10	62
Bataan	37	32	69
Camarines Sur	50	18	68
Sub-Total	**242**	**97**	**339**
Visayas			
Antique	38	30	68
Palawan	50	21	71
Aklan	53	19	72
Leyte	27	43	70
Negros Oriental	37	33	70
Cebu	33	38	71
Sub-Total	**238**	**184**	**422**
Mindanao			
Camiguin	25	46	71
Surigao	31	40	71
Zamboanga del Norte	32	33	65
Sub-Total	**88**	**119**	**207**
Grand Total	**568**	**400**	**968**

As with the last survey (1997), a multi-staged stratified random sampling was done using barangays and individual farmers/fisherfolk as primary and secondary sampling units, respectively. The barangays selected were classified either as cropland or fishing village, depending on the major means of livelihood for majority, or more than 50 percent, of the residents. Six barangays were randomly drawn for each province (represented by one municipality each) with the two area types (i.e., cropland or fishing) represented, as much as possible, by 3 barangays each. From each barangay, 10 small farmer/fisherfolk households were randomly chosen to serve as survey respondents.

The survey involved a total of 968 respondents who were classified into borrowers and non-borrowers, depending on whether or not they had availed of at least one loan during the last 12 months. Moreover, the loans that were considered included only those amounting to at least P1,000. For borrowers with multiple loans, only the 3 most recent loans were documented. This was to lessen the respondents' difficulty in recalling information about their loans.

Survey Results

Profile of Respondents

Borrowers vs. Non-Borrowers: 60 percent of the respondents are borrowers. This is a marked increase from the result of the 1997 survey, where only 47 percent of respondents acknowledged to having borrowed. Among the reasons for the increased proportion of borrowers are: (a) increased demand for supplementary financing; (b) improved access to banks; and (c) continued access to informal lenders (more on these will be discussed later).

Gender, Age and Household Size: Male respondents comprise 67 percent of the sample population. Average age is 44 years, with approximately three-fourths of all the respondents belonging to the 25-55 years age bracket. This particular age bracket is dominant in both the borrower and non-borrower sub-groups. Household size averages 5-6 members.

[1] Prepared by Norman William S. Kraft and Rebec A. Fernandez, OIC-Director II and Project Development Officer V, respectively, of the ACPC.

Education: 96 percent of the respondents have varying degrees of schooling. Hence, pointing to a relatively high literacy rate among the sample population. It is noteworthy, though, that there are more who either graduated from high school or reached high school level among the 4 borrowers (59 percent) compared to the non-borrowers (47 percent).

Livelihood: One-third of the sample population is comprised of palay farmers. Those engaged in fishing activities as a means of livelihood likewise make up one-third of the respondents. Meanwhile, 12 percent of all the respondents are engaged in the farming of other crops and 8 percent have other non-farm/off-farm sources of income, such as salaries from non-farm employment, part-time jobs, vending, etc.

Palay farmers also make up a greater part of the borrowers (37 percent). Of the non-borrowers, on the other hand, as much as 42 percent are engaged in fishing activities, hinting that this particular livelihood group has the least credit access. Meanwhile, among the respondents with non-farm/off-farm sources of income, almost all or 96 percent are borrowers.

Loan Source

Borrowers from formal sources increased from 32 percent in 1997 to around 40 percent in 2000. Among others, this could be due to stricter regulations imposed in CY 2000 on banks' compliance with the Agri-Agra Law (PD 717), which resulted in increased credit flows to agriculture. Correspondingly, the share of borrowers from the informal sector declined from 68 percent in 1997 to 60 percent. Formal loan sources include government financial institutions/banks, rural banks, private commercial banks, cooperatives, pawnshops, and lending investors. Informal sources, on the other hand, include *paluwagans*, traders/wholesalers, retailers, millers/processors, landowners/employers, input suppliers/dealers, professional moneylenders, friends, and relatives.

In the formal sector, the top three sources of credit are cooperatives (where 41 percent of the borrowers get their loans), government (24 percent), and lending investors (15 percent). One third of those who borrow from government institutions obtain their loans from LandBank. Formal borrowers borrow the least from private commercial banks and pawnshops, i.e., the loan source of 1.5 percent and 2 percent, respectively. This notwithstanding, the share of bank borrowers out of total number of borrowers still registered an increase from 6 percent in 1997 to 8 percent in 2000.

Meanwhile, informal borrowers borrow the most (40 percent) from friends and relatives. Borrowers from professional moneylenders come next (21 percent of informal borrowers), followed by borrowers from traders/wholesalers (15 percent of informal borrowers). Again worth noting is the marked shift of preference among informal borrowers from professional moneylenders previously to friends and relatives in the more recent survey. This may be due to difference in average interest charges between the two. Those who borrow from friends and relatives represent one-fourth of the total number of borrower-respondents. The survey results nevertheless continue to confirm the significant role of professional moneylenders and traders/wholesalers in the rural credit market. Out of the total number of borrowers, 13 percent avail of credit from professional moneylenders. On the other hand, borrowers who avail of loans from the government make up only 9 percent of the total, i.e., matching only the share of borrowers from traders/wholesalers.

The survey also confirms that borrowers continue to choose a creditor primarily on the basis of "access," and only followed by the "loan terms & conditions" of the lender. "Access" includes easy collateral requirements, minimal documentation, and fast processing. "Loan terms and conditions," on the other hand, include the loan amount, interest rate, and maturity. These results are again consistent with past similar investigations where credit access, rather than the terms and conditions of a loan, were found to hold greater weight among small farmers/fisherfolk in deciding whether or not to borrow.

Moreover, of the respondents who cited access as basis for choosing a creditor, as much as 40 percent choose to borrow from a source because the loan required no collateral, while only 34 percent choose their loan source because of fast loan processing and release. Hence, more choose their creditor on the basis of easy collateral requirements than because of prompt loan releases – which was the greater consideration in 1997. One-fourth, meanwhile, choose their credit source because minimal documents were being required.

Of those who cited loan terms and conditions as basis, on the other hand, lower interest rates remain the primary consideration (46 percent). 27 percent, meanwhile, consider the loan amount and maturity of the loan and 27 percent, likewise, look at the overall flexibility of the lender with respect to the borrower's needs.

13 percent of the borrower-respondents also cited various other reasons for choosing their creditor, which mainly have to do with convenience, e.g. the absence of alternative credit sources, availability during emergencies, the lender is also the supplier of their production inputs, etc.

Borrowing Frequency, Loan Amount and Interest

Majority (around 58 percent) of the borrower-respondents availed of a loan only once. 41 percent of the borrowers, on the other hand, have availed of at least two loans. Only 13 percent of the borrowers have availed of 3 or more loans. Although most (60 percent) of the documented loans were of amounts P5,000 and below, the average loan size still comes to P12,000. This amount remains nominally unchanged from the previous survey. In real terms, though, it is approximately only 80 percent of what its value was in 1997.

From the floor amount established for the survey (i.e., P1,000), loan sizes ranged up to a high of P700,000. It is interesting to note, though, that average loan size decreased as a borrower availed of more loans. Average loan size for the first loan is P13,000, while average size for the third loan is P8,000. This may be a risk-mitigating response of lenders to clients with multiple loans or to clients who are frequent borrowers.

According to the respondents, effective interest rates[2] ranged from zero to up to as much as 300 percent per year. The average is 48 percent per year (Table 6). Unlike loan size, interest rates increased as a borrower availed of more loans. The average rate for the first loan availed is 45 percent, 51 percent for the second loan, and as much as 68 percent for the third loan. Again, this may be another strategy employed by lenders to mitigate their risk.

[2] Interest plus other charges.

DISTRIBUTION AND FREQUENCY OF AMOUNT OF LOANS AVAILED

Loan Amount (P)	Number Reporting	Percent of Total
Loan 1		
< = 1,000	73	13.2
1,001 - 5,000	259	46.84
5,001 - 10,000	91	16.46
10,001 - 15,000	24	4.34
15,001 - 20,000	33	5.97
20,001 - 25,000	11	1.99
25,001 - 30,000	14	2.53
> 30,000	48	8.68
Total	**553**	**100.00**
Average 13,265.14		
Std.Deviation 36,141.99		
Loan 2		
< = 1,000	34	14.78
1,001 - 5,000	101	43.91
5,001 - 10,000	44	19.13
10,001 - 15,000	8	3.48
15,001 - 20,000	10	4.35
20,001 - 25,000	4	1.74
25,001 - 30,000	10	4.35
> 30,000	19	8.26
Total	**230**	**100.00**
Average 10,481.30		
Std. Deviation 14,825.99		
Loan 3		
< = 1,000	12	16.00
1,001 - 5,000	35	46.67
5,001 - 10,000	15	20.00
10,001 - 15,000	3	4.00
15,001 - 20,000	4	5.33
20,001 - 25,000	1	1.33
25,001 - 30,000	1	1.33
> 30,000	4	5.33
Total	**75**	**100.00**
Average 8,025.33		
Std. Deviation 11,381.68		
Over All Ave. 12,060.86		

The average interest rate paid by formal borrowers (44 percent per annum) is significantly lower compared to the average interest paid by informal borrowers (61 percent p.a.). The highest average interest on formal loans comes from lending investors (79 percent), while the lowest average rates come mainly from government financial institutions, particularly the LandBank (20 percent) and the Development Bank of the Philippines (16 percent). The highest average rate on informal loans, meanwhile, comes from professional moneylenders (148 percent) and the lowest comes from millers/processors (12 percent).

DISTRIBUTION OF INTEREST RATE CHARGED ON LOANS

Interest Rate	Number Reporting	Percent of Total
Loan 1		
0%	140	26.62
1% - 10%	19	3.61
11% - 20%	81	15.4
21% - 30%	54	10.27
31% - 40%	50	9.51
41% - 50%	18	3.42
> 50%	164	31.18
Total	526	100.00
Average 45.03%		
Std. Deviation 55.72%		
Loan 2		
0%	50	25.51
1% - 10%	6	3.06
11% - 20%	35	17.86
21% - 30%	22	11.21
31% - 40%	11	5.61
41% - 50%	6	3.06
> 50%	66	33.67
Total	196	99.98
Average 51.44%		
Std. Deviation 66.18%		
Loan 3		
0%	22	34.38
1% - 10%	1	1.56
11% - 20%	8	12.5
21% - 30%	4	6.25
31% - 40%	2	3.13
41% - 50%	2	3.13
> 50%	25	39.06
Total	64	100.00
Average 67.66%		
Std. Average 84.19%		
Over All Ave. 48.47%		

Reasons for Borrowing

The primary reasons for borrowing among small farmers and fisherfolk are business and personal purposes. Majority of the borrowers cite business as their borrowing purpose (68 percent). Of these, most borrow for farm production (89 percent). Relative to the total number of borrowers, however, this actually represents a lesser proportion compared to the result of the previous. From 70 percent in 1997, only roughly 61 percent of the clients are now borrowing to finance production. Meanwhile, 39 percent of the borrowers use their loans for personal purposes, including consumption, emergencies, and education.[3] This is an increase from the 30 percent share of borrowers who used their loans for consumption/personal purposes in 1997. Majority of those who borrow for personal purposes cite consumption as their reason (52 percent). The reduction in the share of production borrowers and the corresponding increase in the share of borrowers who use their loans for personal uses affirm the trend that has continued since the 70s, i.e., farm households increasingly tapping supplementary financing primarily for basic needs, rather than production purposes.

Past Due Loans

Borrowers who acknowledge having past due loans amount to 21 percent, majority (66 percent) of which were supposedly short-term obligations.[4] 68 percent of the past due borrowers attribute their delayed loan payments to poor crop harvests resulting from *force majeure* events. 15 percent, on the other hand, attribute their being past due to the low market prices on their commodities, which consequently affected their projected cash flows and repayment capacity.

Reasons for Not Borrowing

Most of the non-borrowers admit requiring financing support during the previous year but nevertheless shy away from borrowing. Of the non-borrowers, 40 percent do not borrow despite needing financial assistance because they perceive that they would have difficulty in repaying. 17 percent of the non-borrowers, on the other hand, do not borrow despite their needs because of high interest rates. Meanwhile, 13 percent do not borrow even if they want to because of the many documents required in loan application. Yet, around 11 percent of the non-borrowers say they tried applying for a loan but were rejected because of either lack of collateral, failure or difficulty in preparing the required documents, or outstanding obligations/loans. A significant one-third (35 percent) of the non-borrowers, however, do not borrow simply because they do not need to.[5] This information continues to affirm that some of the problems in the flow of credit are due to the reluctance and poor absorptive capacity of the intended clientele themselves.

Summary and Concluding Remarks

- The proportion of farmer/fisherfolk-borrowers has increased, i.e., from 47 percent in 1997 to 60 percent in 2000. This indicates a sustained increase in the share of borrowers vis-a-vis non-borrowers, which first started to manifest during the 1997-98 survey.

- Moreover, borrowers from formal sources show a significant increase, i.e., from 32 percent in 1997 to 40 percent in 2000. Correspondingly, the share of borrowers from the informal sector declined from 68 percent in 1997 to 60 percent in 2000.

- Cooperatives remain the number one loan source among formal borrowers. Nevertheless, the share of bank borrowers has increased from 6 percent in 1997 to 8 percent in 2000. Meanwhile, friends and relatives have already overtaken professional moneylenders as the number one loan source among informal borrowers.

- Credit access continues to be the foremost consideration among borrowers in choosing a lender, followed only by loan terms and conditions. For factors affecting access, more borrowers now look at collateral requirements rather than the promptness of loan release, which was the greater consideration in 1997. For terms and conditions, interest rates continue to be the primary consideration in choosing a credit source.

- Although average loan size has remained at P12,000, in real terms this means that the average value has actually declined.

- A lesser proportion of farmers/fisherfolk is borrowing for production purposes. From 70 percent in 1997, only roughly 61 percent of the clients are now borrowing to finance production. However, the share of borrowers who obtained loans for personal/consumption purposes increased, i.e., from 30 percent in 1997 to 39 percent in 2000. This affirms the trend that has continued since the 70s, i.e., farm households increasingly tapping supplementary financing primarily for basic needs, rather than production purposes.

- At least one-fifth or 21 percent of the borrowers have past due loans. Of these, 68 percent attribute their past due loans to poor crop harvests resulting from *force majeure* events. On the other hand, 15 percent say their loans became past due because of the poor market prices on their commodities.

- Although they do not borrow, most non-borrowers nevertheless admit requiring financing support during the period covered by the survey. 40 percent of the non-borrowers do not borrow because of perceived difficulties in repaying. Meanwhile, 35 percent of the non-borrowers do not borrow simply because they had no need for it. This information continues to affirm that some of the problems in the flow of credit are due to the reluctance and poor absorptive capacity of the intended clientele themselves.

- The overall increased access to credit of small farmers and fisherfolk in CY 2000 validates reports that\` indicate, among others, increased agricultural lending in the same year. According to the CY 2000 ACPC Report on Bank Lending to Agriculture, loans extended by banks to agricultural production increased by 5 percent in year 2000 relative to the 1999 level. The Bangko Sentral ng Pilipinas (BSP) attributes the increase to stricter regulations on banks' compliance with the Agri-Agra Law (PD 717). While the survey reveals that banks make up a not-too-significant proportion of small farmers' and fisherfolk's loan sources, the favorable attitude shown by banks towards agriculture during the year, coupled with the fantastic 6.4 percent GDP growth exhibited by the sector in the previous year, could have prompted other lenders to likewise increase credit delivery to the sector.

- Interestingly, though, the increasing utilization of loans for non-production purposes among the borrowers suggests that small

[3] The previous survey lumped emergency, education and other household & personal loan purposes under the category of "consumption."

[4] Loans availed only within the last year.

[5] Either they have savings and/or other financing sources.

farm/fishing households are themselves not inclined to prioritize production when credit flows increase. This again points to the growing need among the borrowers to address, first and foremost, their basic necessities, and the need as well to provide the sector continued/further assistance in proper credit management.

- Based on the survey results, therefore, some possible strategies worth considering in further improving the flow of credit to small rural households are:

  (a) *In the supply side*, the packaging of credit facilities suited to the intended clientele's other non-production financing needs (e.g. for consumption and alternative livelihood);[6] the tapping of intermediaries other than formal financial institutions in the delivery of agricultural loans from government.[7] Moreover, to the extent that the BSP attributes to it the increase in agricultural production lending by banks in FY 2000, a sustained strict monitoring and enforcement of banks' loan quotas for agri-agra projects, as required by PD 717.

  (b) In the demand side, the continued provision of training for small farm and fishing households aimed particularly at improving their ability to appreciate and handle credit; improving, also, the acceptability as loan collateral of small rural household's assets (i.e., since the survey shows small farmers and fisherfolk being concerned most with the collateral requirement/s of lenders).[8] A longer-term strategy, meanwhile, is the improvement of rural households' access to education, both formal and vocational. This is in view of the survey result showing that more borrowers had some form of education compared to non-borrowers.[9]

[6] By making such facilities available, loan diversion may be prevented and the long-standing mismatch between loan supply and demand in the countryside may be addressed.

[7] The results of the Innovative Financing Schemes (IFS) currently being piloted by the Agricultural Credit Policy Council (ACPC), LBP and the Quedan and Rural Credit Guarantee Corporation (Quedancor) should be instructive insofar as this recommendation is concerned. Among the innovations being tested through the IFS is the use of traditional informal lenders as channels for government credit.

[8] One possible strategy in relation to this is raising the market value of lands covered by the Agrarian Reform (AR) Program either by amending existing transferability arrangements to make AR lands more acceptable as loan security, or fast-tracking the implementation of the AR Program itself to hasten the elimination of distortions in the land market.

[9] This result provides additional evidence on the existence of a positive link between credit access and education.