

## Small farmer and fisherfolk borrowing up, further at 64% in 2002

The 2002 survey of the Agricultural Credit Policy Council (ACPC) on *Small Farmer and Credit Accessibility* confirms the reverse in borrowing trend observed years ago, when the share of borrowers among small farmer and fisherfolk households moved up to 47 percent in 1997-98, rising to around 60 percent in 1999-2000, and 64 percent in 2001-2002 (Figure 1).

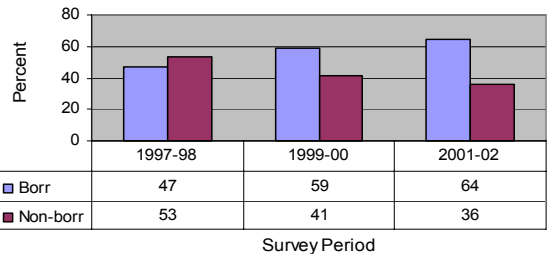
More significantly, trends in borrowing from formal sources likewise went up to almost 40 percent during the two more recent periods covering 1999-2000 and 2001-2002, from 24 percent in 1997-98 (Figure 2).

We recall that formal credit (mainly loans from private and government banks) is widely regarded as the key to enhancing productivity and increasing rural incomes in view of their lower interest rates and bigger fund base relative to informal loans. It was in the 70s and 80s that macro-economic policies tended to promote formal institutions as sources of credit. For instance, the abolition of share tenancy by land reform in the 70s reduced the role of landlords as the main sources of credit (Land Bank & ACPC, 1997). On the other hand, the expansion of rural banks in the 80s made formal financial institutions more accessible to rural borrowers.

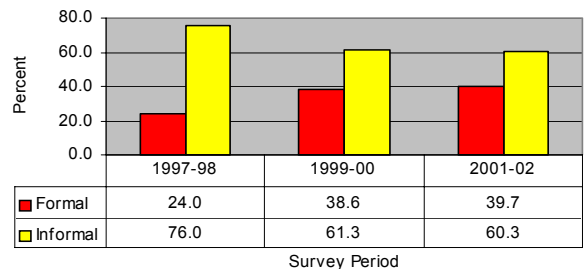
In the early 90s, however, there has been a return to the popularity of informal lenders as banks eventually limited their exposure to farm-and fishing-based borrowers when the non-viability of agriculture and fisheries projects began to manifest as a reality.

These recent trends in borrowing took place after a period of moving back to a demand-driven and a market-led approach to lending, not to mention the emergence of microfinance programs, which employ a broad range of non-traditional and innovative financing methodologies and approaches, catering specifically to poor and low-income households doing livelihood and microenterprise activities (National Credit Council, 2002).

**Figure 1. Proportion of Small Farmer- & Fisherfolk-Borrowers & Non-borrowers**



**Figure 2. Small Farmers and Fisherfolk, by Source of Loan**



This survey continues to provide empirical information about farmers' and fisherfolk's demand for credit, pattern of borrowing incidence, and constraints to loan access and repayment, among others, is crucial to the development of policy measures for improving access to financing. From 1990 to 1996, the monitoring and documentation of these information were carried out as joint projects by the ACPC and the Social Weather Station (SWS). This role continues to be carried out by ACPC through farm and fishing household level surveys that the agency conducts biennially.

A total of 794 sample respondents (426 small farmers and 368 small fisherfolk) were interviewed through a nationwide survey done in twelve (12) regions. The following are the results of the ACPC farm and fishing household borrowing survey for the period FY 2001-2002.

Given the foregoing trends, this survey, more than anything else, continues to answer the question: Has credit become more accessible to small farmers and fisherfolk ?

### **Socio-demographic Profile**

**Total number of sample respondents,** 426 farmers and 368 fisherfolk or a total of 794 respondents across 12 provinces in Luzon, Visayas, and Mindanao.

**By age,** average of farmers is 49 years, average of fisherfolk is 44 years. Average age for all is 46 years.

**By gender,** 76% are male, 24% are female.

**By household size,** average is 6 members.

**By educational attainment,** 98% of respondents have formal education in varying levels; more borrowers than non-borrowers are educated.

**By source of income,** majority of farmers have diversified income-generating activities: 74% of farmers are into palay, 55% into other crops, 20% into livestock and poultry, and 83% are into non-farm activities; 87% of fisherfolk are into capture fishing, 16% into fish culture, none are engaged in other income-earning activities.

**By size of farm,** more farmer-borrowers have smaller farms, between 0.5-1 hectares; average farm size is 1.37 hectares.

**By tenurial status,** 40% are share tenants, 40% own their farmlands, 22% lease their farms.

### **Major Findings**

**By borrowing incidence,** 511 borrowers (64% of total) composed of 311 farmers and 200 fisherfolk.

**By savings profile,** 11% of farmers are savers, saving an average of P1,680 monthly (28% savings rate). Also, 11% of fisherfolk save, at an average monthly amount of P2,300 (40% savings rate).

**By source of loans,** informal lenders remain the more preferred loan sources of farmers and fisherfolk-borrowers (60%); borrowers however, have gained increased access to formal sources (from 24% in 1997 to 34 percent in latter surveys). Friends and relatives are the most popular informal credit sources for both farmers and fisherfolk; cooperatives are the most preferred formal lenders, basically due to non-requirement of collateral.

**Preference for a creditor** is anchored more on loan access factors (72%) such as fast loan release or immediate availability of loan, and non-requirement of collateral, than on loan terms and conditions (24%) such as interest rate. This is true for both formal and informal borrowers.

**By uses of loans,** farmers and fisherfolk borrow mainly for agri production, using portions of their loans for other purposes: 69%

of borrowers use loans for production, less than 10% of all borrowers for non-farm/fishing activities, 45% of borrowers for personal needs.

**By amount loaned,** most farmer-and fisherfolk-borrowers avail only of small amounts of loans; 64% borrow amounts between P1,000-10,000 per year; only 16% borrow amounts of P30,000 and up. Average amount loaned by all borrowers is P16,700 per transaction (P25,800 p.a.). Average amount loaned by farmers is P14,500 per transaction (P21,400 p.a.); by fisherfolk, P19,900 per transaction (P32,500 p.a.).

**By interest rate of loans availed,** as expected, informal lenders charge higher rates than formal lenders; formal sources lend at an average of 18% per annum; informal sources, at an average of 39% per annum.

**By loan repayment**, 12% of farmer-borrowers and only 3% of fisherfolk-borrowers have loans which are past due; average past due rates are 46% and 37%, respectively; past due rates range between 10–100 %, but averages exclude 100% rates which imply complete failure to pay loans. Reasons cited for past due accounts are natural calamities (drought, El Niño, La Niña, pest infestation), and poor market prices for their produce.

**The perception of borrowers on their access to loans in their community.** Majority of respondents (including formal and informal borrowers) indicate that access to credit has become more difficult in the past year (2001). These respondents also view that obtaining loans from banks remain difficult, and that government support on credit is inadequate.

### Conclusions and Recommendations

The incidence of borrowing among small farmers and fisherfolk is still increasing. Compared to 47 percent in 1997-98 and 60 percent in 1999-2000, the share of borrowers in the sector has already reached 64 percent as of the latest survey.

Moreover, forty (40) percent of rural households are now able to source their loans from formal financial institutions, compared to 24 percent in 1997-98. This could be due to the proliferation of microfinance-oriented programs in recent years. Particularly gaining popularity as loan sources are rural banks and programs of local government units (LGUs). Albeit, most formal borrowers still get their loans from cooperatives because of the absence of collateral requirements.

The majority of farm and fishing households (60 percent), though, still borrow from informal creditors because loans are released much faster. Loan sources are still chosen primarily on the basis of access considerations (72 percent) than on the lending terms and conditions (24 percent). However, compared to previous surveys, more farmers and fisherfolk now have the perception that access to credit has become more difficult; and the major reason cited is dwindling government credit support.

Based, therefore, on the foregoing, the following points are recommended.

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(a) The government should adopt and/or implement policies that would further encourage lending agents to provide credit for small farmers and fisherfolk:

- “Marketability” of farm land should be enhanced by giving farmers formal propriety rights over their lands under the Comprehensive Agrarian Reform Program (CARP) that will enable them to sell, mortgage or transfer their land to anyone at anytime;
- Savings mobilization programs should be developed and promoted vigorously in rural areas to increase the proportion of savers in the countryside and bring down the cost of capital;
- Innovative-financing schemes (IFS) should be developed for minimizing documentation and collateral requirements for small borrowers that need quick access to financing assistance;
- GFIs should refocus on their main mandates and modify their financial services to better cater to the priority sectors and increase their agriculture and fisheries lending portfolio;
- Agriculture and fisheries credit guarantee and insurance facilities should be improved; and
- The implementation of the AFMA-mandated Agro-industry Modernization Credit and Financing Program (AMCFP) which will tap GFIs and Quedancor as wholesalers, and private banks, cooperatives and NGOs as retailers.

(b) Likewise, government should put in place necessary measures that can make local agriculture and fisheries more viable and globally competitive, such as (i) rural infrastructures and facilities that can minimize production and marketing costs; (ii) programs on education, training and related services for the development of cooperatives, credit unions and self-help groups, especially since the most accessible formal credit for farmers and fisherfolk comes from cooperatives; and (iii) improved peace and order conditions in the countryside.