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# Credit Constraints and Opportunities for Smallholder Producers in the Philippines

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## Abstract

*(Keywords: credit systems, smallholder farms, developing countries)*

In the Philippines, farmers have often cited the lack of access to capital as the main impediment to increasing agricultural production. Production and marketing expenditures of smallholder farmers are predominantly financed by traders and household savings. Product, input and credit markets are strongly interlinked and involve both formal and informal sectors. This research aims to understand the existing financial systems available to smallholder livestock farmers in Western Leyte, Philippines. It investigates the constraints and problems faced by livestock farmers in relation to access to capital, identifies opportunities to overcome credit constraints and formulates recommendations for improving access of smallholder farmers to credit.

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# Credit Constraints and Opportunities for Smallholder Producers in the Philippines

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*In the Philippines, farmers have often cited the lack of access to capital as the main impediment to increasing agricultural production. Production and marketing expenditures of smallholder farmers are predominantly financed by traders and household savings. Product, input and credit markets are strongly interlinked and involve both formal and informal sectors. This research aims to understand the existing financial systems available to smallholder livestock farmers in Western Leyte, Philippines. It investigates the constraints and problems faced by livestock farmers in relation to access to capital, identifies opportunities to overcome credit constraints and formulates recommendations for improving access of smallholder farmers to credit.*

## 1. Background

Livestock plays an important role in smallholder farming systems. They are a source of cash, food and draft power for the farm. The contribution of livestock to smallholder farm households is significant (ILRAD 1992, Sansoucy et al. 1995). Despite their importance, livestock productivity is generally low in many developing countries (Devendra 1995, Ehui and Shapiro 1995, Sansoucy et al. 1995).

There are a number of ways by which productivity levels could be improved. These include improved stock and genetic resources, improving animal health, better housing, better feeding systems and improved management practices among other things (Loehr 1989, Devendra 1998). Farmers, however, face a number of constraints in improving their livestock systems. An oft-cited constraint is the lack of capital to buy necessary inputs and the lack of access to credit (Devendra et al. 1997; Hossain and Diaz 1997, Alcober and Dagoy 1998, Rola-Rubzen 1998).

In the Philippines, there is potential growth in demand for meat products with the development of the non-farm sectors and increased incomes of consumers. Currently, the livestock sector in the Philippines contributes about 25.5 per cent of total agricultural output. Livestock productivity is currently low and the country is not yet able to meet domestic demand; hence relies on imports to meet national needs. With appropriate incentives in place, more efficient production in livestock amongst smallholder farmers may lead to an improvement in their socio-economic well being.

Improved livestock productivity would also lead to increased domestic production, and therefore lower imports, which would then result in foreign exchange savings.

With the view of helping smallholder livestock farmers in the Philippines, a development project was conceptualised. The goals of the project were to: to improve the contribution of livestock, in a measurable and sustainable way, to the social and economic wellbeing of smallholder families in Western Leyte, Philippines; and to increase the capacity of participating producers to improve the management, profitability and long-term sustainability of their livestock systems through continuous improvement in their creativity, decisions, processes, practices and performance. Because of the complexity of smallholder crop-livestock systems and the interrelationships of the determinants of livestock improvement, the project was designed to be multidisciplinary. In addition, the approach was participative in nature. This is in an effort to ensure genuine participation by farmers in the research, development and extension process. Participative methods are said to help promote the identification of issues that are of greatest relevance to farmers' needs. Moreover, products and services of research are more likely to be utilised by the end-users. Participants are likely to become active players in the research process particularly if they feel ownership of the project.

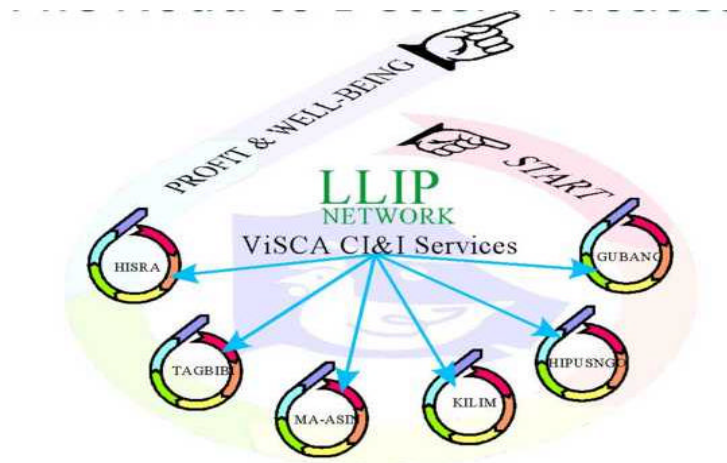
## **2. The project**

The project is located in the municipalities of Hindang and Baybay in Western Leyte, Philippines. Western Leyte is one of the most depressed regions in the Philippines, with about 46% living in poverty. In this region, most smallholder farmers raise livestock - principally carabao, pigs and chickens (Posas et al. 1983). Livestock are mainly concentrated in Leyte, which has 72 per cent and 74 per cent of the region's livestock and poultry farms, respectively (Alcober and Dagoy 1998).

Each of the municipalities is represented by three villages (*barrios*). For Hindang, the barrios included are Hisra, Tagbibi and Ma-asin; and Gubang, Hipusngo and Kilim for Baybay. A self-managed network of local groups was established and facilitated to enable smallholder farmer participants to develop the capacity to continuously

improve whole-farm analysis, decision making and livestock management. The structure of the farmer network is shown in Figure 1.

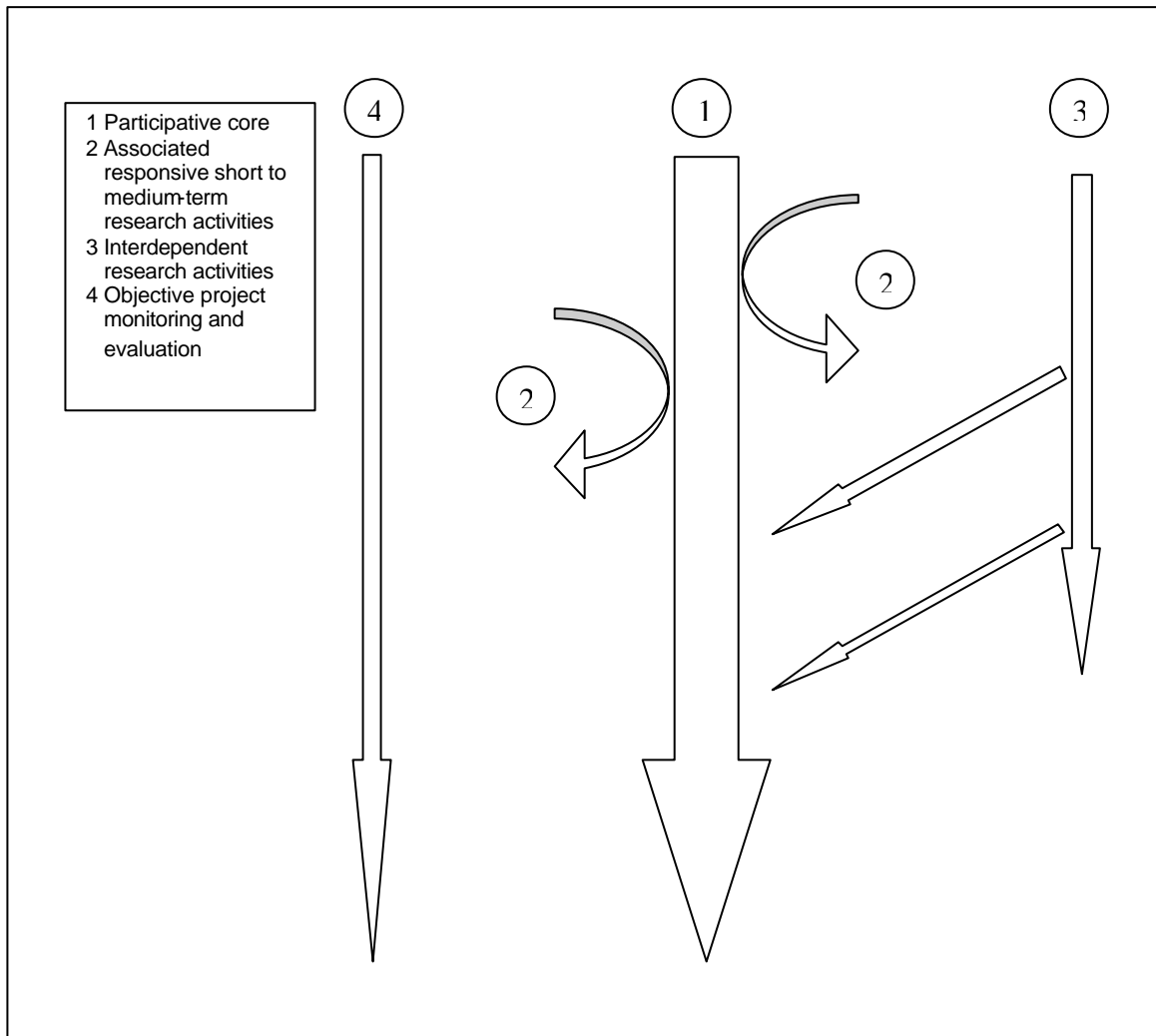
**Figure 1: Structure of the Leyte Livestock Improvement Network (LLIN)**



The approach used in the project is the 'Better Practices' process of participative action research (Clark and Timms 1999). This process is specifically designed to enable all participants in the research to continuously improve their practices and performance in the project from the outset.

The project is comprised of a participative core, four inter-linked sub-projects which supports the main core and an independent monitoring and evaluation sub-project (Figure 2). The supporting sub-projects include chicken production, pig production, waste management and marketing, credit and socioeconomics.

**Figure 2: Project Structure**



Through the use of continuous improvement and innovation (CI&I)<sup>1</sup> (Clark and Timms 1999), the project identified constraints and opportunities for improvement in the livestock production systems of farmers. Among the issues identified include poor market linkages and lack of affordable credit to enhance household income-generating activities.

Most farmers in the area reported lack of capital as the main impediment in improving their livestock systems. Efforts to increase their production levels and introduce

improved management systems (e.g., better housing, nutrition and genetic resources) are impeded by the lack of funds to purchase the necessary inputs. Hence, a priority activity in the project was to support farmers in identifying existing credit/financial systems in the area and explore ways of responding to capitalisation problems and credit requirements.

### 3. Exploring Financial and Credit Systems

Using reconnaissance survey technique, the team facilitated group discussions during CI&I meetings focussing on credit and financial systems in the area. Farmers identified the problems and constraints in regards to credit and financial systems. In all farmer groups in Hindang and Baybay, credit or financial constraint was identified as a major impediment in improving livestock production systems (Table 1). Using the CI&I technique, farmers were then asked to identify opportunities and possible solutions to credit/ financial problem. They were also asked to identify current and potential sources of formal and informal capital.

**Table 1: Manin problems and Constraints With Regard to Capital**

<b>Problems/ Constraints</b>
Lack capital for feeds and other inputs
No information on alternative sources of capital

The reconnaissance survey involved a quick exploratory survey conducted during short sessions and CI&I meetings. It involves interviewing targeted participants (e.g., farmers, traders, middlemen, financial institutions, etc). The objective is to obtain a picture of the systems and to find out what they do and why they do it. Data gathered included both quantitative and qualitative data, though emphasis is given to qualitative data. The reconnaissance survey also served to give a quick ‘picture’ of the current marketing situation and provided important information on the prospects for

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<sup>1</sup> Continuous improvement and innovation (CI&I) is an action learning technique which involves an ongoing six-step cyclic process, including situation analysis, impact analysis, action design, action implementation, performance assessment and creation and synthesis.



farming. As well, it will provide insights on the problems and constraints in relation to marketing of small livestock in the area.

## 4. Main Findings

There are several financial/ credit systems in the area. There are formal, semi-formal, and informal credit sources. Formal institutions include rural and commercial banks while semi-formal sources include credit cooperatives and micro-credit groups. The informal sources comprise private moneylenders, friends, relatives, neighbour and *suki*<sup>2</sup> (Table 2).

**Table 2: Current financial systems in the area**

Type	Description
Formal institutions	rural banks commercial banks
Semi-formal institutions	credit Cooperatives micro-credit groups
Informal sources	private moneylenders friends relatives neighbours suki

In general, the formal and semi-formal credit sources charged lower interest rates than the informal ones, specifically the money lenders. However, they have stringent collateral requirements unlike the informal sources which provide flexible and accessible services to the farmers. The higher interest rates required by informal lenders is a result of the transaction costs and moral hazard associated with informal borrowing (Table 3).

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<sup>2</sup> Suki is a local term to denote a person with whom the buyer/ farmer has had repeated transactions. The long-term buyer-seller relationship between the parties is believed to engender trust.

**Table 3: Terms and conditions of financial systems**

Aspects	Financial Institutions		
	Commercial Banks	Bidani Micro-Finance	Moneylenders
Duration of loan –	at least one year	6 months	not fixed
Interest rate	13.5-15% per annum	2.5%/month	10% per month
Timing of payments	monthly, quarterly or yearly	quarterly or monthly; if monthly, loan will be divided in six months and the first monthly amortisation will be collected a month after the release	monthly
Collateral requirements	building/real estate/land	none	none
Other requirements	character investigation	borrower must be a member of BIDANI/resides in a Bidanized <i>barangay</i> ; must attend a Values Reorientation Seminar; organise into association; should engage into business/livelihood/in come-generating projects; and attend regular monthly meetings attended by a BIDANI Micro-finance representative.	signed note

## 5. Opportunities

Using CI&I, farmer groups in Hindang and Baybay were asked to identify opportunities for possible sources of capital (this was made the focus of the meeting). This was done in separate groups (Hindang and Baybay). The first activity was done with Baybay farmers. Due to lack of time, the activity involved asking farmers directly about the possible alternative sources of capital for their livestock production activities. Ideas concerning advantages and disadvantages of each of the identified

source were solicited. These issues were further discussed, after which the farmers were requested to identify their priority option. Farmers were made to understand that they might make individual action plans concerning the issue of lack of capital taking into consideration the priority option they have chosen.

There were learning experiences learned with the Baybay activity that led to modifications in handling the activity in Hindang. First, farmers were requested to identify the focus of the meeting (identify sources of capital). Then they were asked about the various production activities/aspects (from pen construction to feed supplementation) that need capital. These various aspects were listed on a Manila paper and farmers were requested to rank/prioritise the need for money among the aspects identified. This was done in order to facilitate the decision-making process of the farmers (not all production activities might frequently require money and entail the most production cost).

Once the priority expenses were identified, the farmers were then asked about the possible alternative sources of capital for such expenses. These served as their options or opportunities. The advantages and disadvantages of these options were discussed. Then a decision-making tool involving six criteria was presented for setting the farmers' priorities/ranking among the identified opportunities. The criteria included benefits, cost, risk, feasibility, ease of implementation and time to implement option. The priority options would be used by the farmers in making their action plans for sourcing capital specifically for pig production.

One group of participants (HISRA) were asked to identify opportunities in capital-building and credit-related concerns also using CI&I. Several ideas came out including putting up a cooperative input-supply store, setting up a micro-finance scheme, etc. Because, their need for funds was mainly for the purpose of buying feeds and veterinary supplies, the group identified putting-up an Agri-Vet Supply store as the best way of addressing their concern about lack of capital for their livestock production activities. Members included this in their action plan. There was overwhelming support to put this opportunity into action.

The project specialists helped them focus on important planning aspects and provided support and advise. Implementation of their action plan to this effect considered

several success factors including: capital, suppliers, management, location or site of store, record-keeping/bookkeeping, and cooperation among members. Since the farmers were already organized, they were able to easily decide on the matter. The project staff based in Hindang and a representative from the Local Government Unit (LGU) facilitated the meetings as well as the establishment (contact and business arrangement with suppliers and other activities) of the store.

An important aspect is the provision of support by project staff. Project staff provided support to succeeding farmer meetings on the improvement of the operation of the store. Discussions included insights on strategies to increase the capital build-up, collection of receivables from members, benefits derived by members from patronising the store and training needs especially on management as well as simple accounting (including record-keeping/bookkeeping). This contributed to the identification of opportunities by farmers to further improve the operation of their store.

Utilising expertise of project specialists, staff also conducted training on simple accounting among officers of the association and the LGU representative. This was one of the opportunities identified during one of the CI&I meetings. The context and purpose/importance of accounting were discussed with the participants as well as the various steps/procedures undertaken in simple accounting. In order for the farmers to really appreciate the training, the exercises on journalizing and preparation of financial statements (income statement and balance sheet) made use of actual data from real transactions of the store. The farmers' observations, questions, ideas, and opportunities were solicited after the training.

## **6. Final Comments**

As a result of the activities there is now better understanding of credit needs of farmers. There is also increased understanding and awareness of credit and financial systems, as well as opportunities for action.

The HISRA Agri-Vet Store is now operational. Members mobilised their savings in order to put up initial capital shares for the store. One share is equivalent to ₱500.00 (approximately A\$20). The store services both HISRA members and non-members.

HISRA can get feeds from a particular supplier on credit for a month and veterinary supplies on consignment basis. Hence, it can sell these stocks to members of the association also on credit, provided that said members pay their debts regularly. In fact, the farmers have agreed to limit the credit of the members to the amount of their shares only. This provides safeguard against bad debts. With members now able to avail of feeds and supplies on credit, farmers indicated that their need for capital or funds has now been met. The Local Government Unit (LGU) of Hindang is currently working on the accreditation of HISRA in the MDC. This offers a good opportunity for HISRA to avail of financial support from the LGU.

HISRA served as a role model for the six farmer groups. Most farmers from the other farmer groups in Hindang signified to join HISRA while those in Baybay identified a similar option to alleviate their problem on capital especially for feeds and veterinary requirements.

As a final note, the success of putting up the input supply store has certainly been influenced by the support provided by the project team. However, it was also observed that HISRA members were creative and receptive in implementing options that they believe can make a real difference in their situation.

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