



ICAEM2019
The 9th International
Conference on Agribusiness
Economics and Management


**INCLUSIVITY,
INNOVATION, AND
SUSTAINABILITY
IN AGRICULTURAL
VALUE CHAINS**

Waterfront Insular Hotel,
Davao City, Philippines
13–15 November 2019





1

**Microfinance credit on rural farming community: issues, outcomes, and lessons
learned from the experiences of smallholder vegetable farmers in Barangay
Marilog, Davao City, Philippines**

Oracion*, H., Shuck, V., Aguinaldo, R., Concepcion, S., Rivero, G.
University of the Philippines Mindanao



ICAEM2019
The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain

2

PRESENTATION CONTENT

- 1 Background of the study
- 2 Objectives of the study
- 3 Methods of the study
- 4 Results
- 5 Lessons learned
- 6 Conclusion



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

3

Background of the study



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

4

Background of the study

- Vegetables are short-term crops which are ideal for smallholder farmers to grow to fulfill their immediate financial needs



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research



5

Background of the study

Challenges:

- Insufficient working capital limits farmers' ability to participate and benefit from market opportunities
- Poor technology adoption makes farmers vulnerable to risks such as pests and diseases, weather shocks



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research



6

Background of the study

- Many studies have reported that access to credit plays an important role in agricultural development and rural development



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research



7

Background of the study

- Following the success of microcredit to poor provided by Grameen Bank in Bangladesh, microfinance is replicated and widely promoted in developing countries to reduce poverty incidence
- Microfinance services range from loans, deposits, and insurances which are catered and tailored to low-income individuals or groups



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research



8

Objectives of the study

- To describe the financing scheme adopted by smallholder farmers in vegetable production in Barangay Marilog, Davao City
- To document the outcomes and issues from accessing microfinance credit by a group of smallholder vegetable farmers and draw lessons from their experiences to help improve delivery of microfinance services to farming communities



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

9

Methods



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

10

Location of the study

- **Barangay Marilog** is one of the main production areas of vegetable in Davao City
- Barangay Marilog has 46 sitios
- A vegetable farmer group named Sabang Association of Farmer Entrepreneurs is located in Sitio Upper New Sabang



Image 1. Map of the Philippines



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian
Aid

11

Data analysis

- A case study approach was employed in documenting the experiences of smallholder farmers with information collected from household survey, farming systems survey, focus group discussions, trip reports, and field visits



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian
Aid

12

Results



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

13

Profile of Farmer Association

- Sabang Association of Farmer Entrepreneurs (SAFE) is composed of 24 vegetable farmers (12 females, 12 males)
- Vegetables commonly grown are cucumber, pechay, string beans, Kentucky beans
- Most (67%) of the farmers rely on rainfall for farm irrigation



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

14

Profile of Farmer Association

- Farmers have an average of **one hectare** of land of which only **0.055 ha (550 sq.m.)** are planted to vegetables and rely mostly on **family labour**
- Most of the farmers (65%) own the land that they till
- Average age of farmers is **40 years old**
- Average years of education is **8 years**
- With limited assets and resources to perform activities to improve their vegetable production



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

15

Informal sources of credit

Trader-financier appeared to be an important source of credit of the vegetable farmers

- The local traders finance the farm inputs which are given to the farmers in-kind
- The local traders also provide cash to farmers who need immediate cash provided that they have established a good track record
- Farmers are required to sell all their produce to the trader-financier which the latter buys all-in



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

16

Informal sources of credit

- **Sosyohay**
 - money pooled through contributions from residents of the Sitio to be utilized for fiesta celebration
 - the contributions are pooled and are made available for loan at an interest rate of 10%, compounded monthly
- Other sources include **relatives, friends, neighbors, and moneylenders**



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

17

Linkage with a Microfinance Institution

- offers a range of financial services such as business loan, agricultural loan, micro-insurance, and savings
- the loan size of SAFE members in the first three cycles ranges from PhP8,000 to PhP14,000
- almost all members of the association (95.8%) availed credit and other microfinance services
- loan repayment term: within six-month period at an interest rate of 2% per month



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

18

Linkage with a Microfinance Institution

Through their loan, farmers were able to acquire drums, hoses, tapped spring water for farm irrigation, and access market retail space for direct marketing of vegetables and other agricultural produce



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research



19

Linkage with a Microfinance Institution

- in the first three loan cycles, the farmers were able to pay their loan within the repayment period
- due to good repayment performance of the farmers, the MFI increased the loanable amount
- in the succeeding loan cycle of farmers, amount of loan ranges from Php30,000 to Php50,000



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research



20

Credit allocation (4th cycle)

- Farmers' loan was spent on vegetable production, home improvement, household needs (i.e. food consumption), fiesta celebration



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

21

Credit allocation (5th cycle)

- An average of 79% of farmers' loan was allocated to pay their loans from other sources (i.e. *sosyohay*, moneylenders)



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

22

Issues

- Approval and release of huge amount of agricultural loan to the farmers even if it is beyond their agricultural needs and capacity to pay



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

23

Average vegetable production cost of farmers per cropping cycle

Vegetable	Average cost per sq.m (in PhP)	Average land Area planted (in sq.m)	Cost of Production (in PhP)
Pechay	13.55	500	6,775
String beans	33.66	300	10,098
Kentucky beans	9.73	700	6,811



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

24

Issues

- Approval and release of huge amount of agricultural loan to the farmers even if it is beyond their agricultural needs and capacity to pay
- Absence of credit investigation and lack of regular monitoring to farmers
- Vegetable production comes along with higher risk due to climatic conditions and volatile markets



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

25

Outcome

- Farmers had experienced difficulty in repaying their debts
 - a loan extension was granted by the microfinance institution allowing debt repayment period to be extended



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

26

Lessons learned

- There is a need to understand the various aspect including farm activities, agricultural crop cycle, pattern of risks and risk-coping mechanisms used by farmers
- Credit services should be tailored according to the need of the farming communities and to deal with complexities (e.g. repayment term –case of MFI Y which requires its borrowers to pay loan amortization starting one week after the loan is released)
- The optimal loanable amount for agricultural loan must be within the needs and capacity of farmers. A simple and realistic business farm plan as one of the requirements in loan application would be essential to assess the borrowing needs of the farmers and their repayment ability



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

27

Lessons learned

- Credit investigation, regular monitoring, financial literacy to borrowers are pre-requisites in order to have an effective delivery of credit services to farming communities
- Repayment capacity assessment should be done at each loan cycle with cross checking and validation of farm business plan
- Credit policy and agreements should be translated to local dialect



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

28

Conclusion

- Based on the credit allocation of farmers it can be deduced that they borrow beyond the amount of capital they need in their vegetable farms
- Access to credit is not enough to achieve agricultural productivity, thus it must be coupled with **social preparation** through financial literacy and community meetings and consultations to bring to fore and validate their issues and needs and to design credit scheme tailored to the social and cultural context of the farming community



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

29

Acknowledgement

This study is part of the project titled, Developing vegetable and fruit value chains and integrating them with community development in the southern Philippines (ACIAR/AGB/2012/109)



ICAEM2019

The 9th International Conference on
Agribusiness Economics and Management
Inclusivity, Innovation, and Sustainability in Agricultural Value Chain



Australian Centre
for International
Agricultural Research

Australian
Aid

30