FFTC Agricultural Policy Platform (FFTC-AP)
Available online at: http://ap.fftc.agnet.org/index.php

Enhancing Access to Agricultural Credit for Small Farmers in the Philippines: Some studies, Policy Recommendations and Innovations

Ruel C. Limbo
Supervising Agrarian Reform Program Officer/OIC-Chief, Policy Division
Policy and Research Service (PRS)
Department of Agrarian Reform (DAR)

INTRODUCTION

Agricultural credit is a major support service extended to serve the financial needs for agricultural production, marketing and other stages of the value chain. Enhancing access to credit by small farmers has always been a major component of development programs and projects in the Philippines.

This article presents some policies and strategies identified and made suggestions based on several studies conducted in the Philippines to assess the implementation and effects of credit programs and recommend policies to improve credit access of small farmers including agrarian reform beneficiaries (ARBs).

PROPOSED POLICIES AND STRATEGIES BY VARIOUS STUDIES

Emphasis on values reorientation, information and education than direct assistance. Arlanza *et al.* (2006) in a review of agrarian reform communities (ARCs) with foreign-assisted projects (FAPs) revealed that even those farmers who are encouraged to adopt new agricultural technologies and venture into livelihood projects are constrained by the lack of capital and limited access to credit at reasonable interest rates. They were generally considered as resource poor with perceptions that shifting from subsistence to commercial production would require investments beyond their means. In addition, previous credit policies developed dole-out mentality and dependence among farmers.

The possibility of the FAPs to fill in the gap and extend credit to ARBs was found to be constrained by Executive Order (E.O.) 138 that prohibited direct lending by non-financial institutions. Rather than outright credit assistance, it was recommended that values reorientation, information and education that develop self reliance are seen as more favorable in providing sustainable solutions to the problem.

Addressing problematic cooperatives and designing new programs using other conduits. Balisacan *et al.* (2007) in a study on the impact of the Comprehensive Agrarian Reform Program (CARP) on poverty reduction stated that some rural credit mechanisms for ARBs initiated by non-government organizations (NGOs) were successful. Although limited in scope, they have shown impact among the specific target beneficiary groups. They can be expanded and scaled-up to have a wider reach among ARBs with the Department of Agrarian Reform (DAR) providing technical assistance to the credit providers to strengthen their capacity to expand to other beneficiary groups.

The study recommended to define a more responsive policy for the Land Bank of the Philippines (LBP) in ensuring credit access to ARBs to address the problems on problematic agrarian reform beneficiary (ARB) cooperatives that are found to be inactive or have already disbanded, and design new programs that will ensure credit to using other conduits.

Reducing costs and risks associated with agricultural lending and finance. Geron *et al.* (2016) conducted a comprehensive study on credit programs to smallholders. Smallholders were defined as the ARBs, landless rural workers and other small farmers cultivating less than three hectares, with low productivity, poor market linkages, with varying source of income, considered as high risk by lending institutions and lack access to finance.

The study also assessed the Agrarian Production Credit Program (APCP), a credit facility designed for organizations of small farmers that are generally not qualified under the regular lending program of LBP, and implemented through complementation or resources and expertise from the Department of Agriculture (DA), DAR, Department of Environment and Natural Resources (DENR) and LBP. In addition to the lending facility, the program provides capacity building assistance to the borrower farmer organizations to eventually make them qualified and eligible under the regular lending programs of LBP.

According to the study team, costs of lending to smallholders can be reduced through various innovative measures through support from the government, and initiative from private sectors or banks (Table 1).

Table 1. Recommended policy options and innovations for support by government and private sectors, based from Geron *et al.* (2016)

Government	Systematic and useful set of information for financial institutions to determine the credit risk profile of smallholders
	Effective market linkaging of producer organizations to structured value chains
	Systematic, sustained and demand-driven capacity building program for viability and sustainability of cooperatives and farmers' organizations
	Effective and responsive crop insurance program with immediate claim payments
	Effective guarantee program for smallholder financing
	Provision of necessary rural infrastructure support
Private	Use of agents in distributing finance and collecting information about smallholders
	Collaborating with agricultural experts to design loans with flexible repayment terms that are linked to actual crop cycle
	Use of farmers' organizations as hubs for loan distribution and collection
	Use of warehouse receipts and equipment leasing as collateral substitutes
	Understanding the value chains and buyer relationships to determine future cash flows and improve the credit assessments of smallholders
	Product innovations (e.g. credit card concept, with accredited input dealers and suppliers)

	Use of mobile/electronic banking for farmers and to provide digital footprints for smallholders

Donors' assistance in financial literacy and farm productivity improvement. The study team of Geron *et al.* (2016) further suggested that on the supply side, donors or development organizations can provide technical assistance to financial service providers in assessing the risks associated with smallholders and using the results in designing and customizing appropriate agricultural financing products.

CONCLUSION

Some of the identified policy options in earlier studies were implemented through credit programs like the APCP. Farmer organizations (ARB organizations, cooperatives) as conduits of credit for small farmers is effective although problems were also encountered. The viability and sustainability of farmer organizations and banks as effective conduits need to be supported by continued capacity building to enhance their organizational and operational policies, systems and procedures and to be able to carry out the implementation of suggested innovations for more efficient financial services for small farmers.

REFERENCES

Balisacan A.M., R.G. Edillon, R. M. Briones, C.O. Abad Santos, S.A. Piza (2007). Impact Assessment Study on the Impact of CARP on Poverty Reduction and Prospects for Long-Term Growth, Asia Pacific Policy Center, October 2007

Arlanza, R.S., Gordoncillo, P.U., Meliczek H, Palafox, J.A.F., and Peñalba, L.M. (2006). The Comprehensive Agrarian Reform Program: Scenarios and Options for Future Development. German Technical Cooperation (GTZ).

De los Reyes, V.R. (2016). End of Term Report for Term July 2010 to June 2016, Department of Agrarian Reform, DAR, Quezon City.

Geron, M.P.S, G.M. Llanto and J.A.R. Badiola (2016). Comprehensive Study on Credit Programs to Smallholders, Philippine Institute for Development Studies (PIDS).

Habito, C.F., R.M. Briones and E.M.S. Paterno (2003). Investment, Productivity and Land Market Impacts of the Comprehensive Agrarian Reform Program (CARP), Department of Agrarian Reform (DAR) and Food and Agriculture Organization (FAO).

Guce, G.M. and N.W.S. Kraft (2001). Revisiting the AFMA Chapter on Credit : How Far Have We Gone? ACPC Monitor, April 2001.

Republic Act (R.A.) No. 10000, An Act Providing for An Agriculture and Agrarian Reform Credit and Financing System Through Financing Institutions: "The Agri-Agra Reform Act of 2009".

Sour J. (1984). Alternatives to Institutional Credit Programs in the Agricultural Sector of Low-Income Countries, Economics Report No. 26, Asian Development Bank.

Date submitted: Nov. 13, 2017
Reviewed, edited and uploaded: Nov. 22, 2017