

Documentation of Proceedings on the
Agri-Microfinance
Roundtable Discussion

*Savannah Room, Discovery Suites
Ortigas Center, Pasig City
09 March 2007*

AGRICULTURAL MICROFINANCE RESEARCH PROJECT
A Collaboration between MCPI and AIM



AIM

AGRICULTURAL MICROFINANCE RESEARCH PROJECT (Roundtable Discussion)

The initial roundtable discussion on the agricultural microfinance research project was held at the Savannah Room of the Discovery Suites on March 9, 2007 from 8:30 a.m. to 12 noon. Microfinance practitioners attended, and Prof. Ronald Chua of the Asian Institute of Management (AIM) facilitated (refer to Exhibit 1 for the list of participants).

Mr. Edgardo Garcia, Executive Director of the Microfinance Council of the Philippines (MCPI), started the meeting by mentioning the rationale of the project. He said that traditional microfinance initiatives have made headway in improving the lives of the marginalized sector of the society. However, not enough importance in terms of financial service provision is given to those who are in the agricultural sector.

The first step in addressing this gap is to document successes and failures of existing agricultural microfinance programs and to come up with lessons and insights, which can be considered in coming up with appropriate and relevant initiatives.

Prof. Chua then presented the research project's objectives, methodology, and deliverables/outputs (Exhibit 2). He also discussed the objectives of the roundtable discussion, which were to: (1) identify issues related to agricultural microfinance and (2) solicit comments on the research design.

Issues Related to Agricultural Microfinance

Access to Credit

There is an assumption that there are numerous credit programs targeted to the agricultural sector. The research project should be able to establish if this assumption is true. Research conducted by the Social Weather Station (SWS) and the Agricultural Credit Policy Council (ACPC) can be used to validate this assumption.

All farmers have access to credit. In fact, it is common for some farmers to have multiple sources of loans. The problem is that some have limited access to formal credit due to high interest rates, terms and conditions that cannot be fulfilled by the borrowers, among others. The 2005 ACPC survey revealed that high interest rates were a common complaint among borrowers. And even though informal lenders charged high interest rates, borrowers still patronized them because they were easily accessible and documentation and collateral are not required. However, borrowers from formal sources, specifically cooperatives and rural banks, have been increasing over time.

Microfinance institutions need to know their roles or positioning in addressing the problem of limited access to credit. In addition, they need to determine the positioning of agricultural microfinance loans vis-à-vis the other loan products. They might wish to design their products in such a way that they will be different and/or complementary to the other loan products available in the market. This can be done by determining the sources of loans and the needs that are not met by other loan providers. For example, in addition to production

loans, cooperative members also like to avail of microinsurance and microhealth services.

The research project can determine the loan and payment practices in agricultural communities. It can also be determined if farmers still patronize the informal lenders and to what extent. In addition, changes in the business practices of informal lenders over time can be ascertained. For example, their interest rates may have gone lower because of the entry of formal lenders that offered lower rates.

The Development Bank of the Philippines (DBP) questioned the assumption that there is no problem regarding credit availability. The fact that there are still 47 “unserved” areas in the Philippines is proof that there are still places where credit is not provided. However, the methodology in determining the unserved areas was questioned because the list was based on People’s Credit and Finance Corporation’s list of areas where it still does not have outreach. The informal lenders, as well as non-PCFC conduits, may already be serving the “unserved” areas identified by PCFC.

There is a difference between agricultural lending and agricultural microfinance. Agricultural loans or directed credit are considered seasonal loans and payable after the crops have been harvested. On the other hand, agricultural microfinance considers the household’s other sources of income, besides agriculture. Loan amounts and payments schemes are based on the households’ cashflows and not on the production estimate and harvesting schedule of the agricultural products. It was raised if one of the objectives of the research is to come up with a recommendation supporting a shift from traditional agricultural loans to microfinance loans. The research will determine how many farmers and fisherfolk access agricultural loans vis-à-vis agricultural microfinance loans. The ACPC’s customer profiling study can be used to answer the question.

In the case of the DBP, Josephine Canlas said that the agricultural and microfinance loans are still considered different types of loans. In a three-hectare landholding, for example, a loan amounting to P300,000 is needed, so it does not fall under the microfinance loan portfolio. The loan repayment schedule is still seasonal instead of the regular payments practiced under microfinance.

The Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) adopted some of the microfinance methodology in the provision of loans. For example, group loans are provided and the size of the loans are based on the household income. But like DBP, loan payment is seasonal. However, it is possible that a certain amount of the loan can be paid prior to the harvest because there are non-farm sources of income like remittances from household members working abroad.

Agricultural Income Versus Household Income

The situation in agricultural communities has changed over time. Most of the farmers have multiple sources of income. For example, 80 percent of the Microfinance Access to Banking Services’ (MABS) farmer-clients belong to households that have other sources of income besides agriculture.

Although the farmers’ main source of income is still from agriculture, they also engage in other business activities such as carpentry or trading when they are not busy with their farming activities.

Mitigating Risks

By diversifying their sources of income, farmers protect themselves from the seasonal risks inherent in agriculture. On the part of the creditors, risks are minimized if their clients have other sources of income because they can pay on a regular basis and have alternative sources of payment when their main livelihood activities fail. Regular payments also instill discipline among borrowers.

A trader usually extends loan a month before a farmer harvests his produce because this is the time when the latter is running out of cash. In addition, the trader minimizes his risk because there is only a short period between loan provision and payment. The trader also gains some bargaining power over the price of the produce at harvest time.

Savings – The Other Half of Microfinance

One of the most important components of microfinance is savings mobilization because it can minimize the risk in loan default. QUEDANCOR came up with a savings program through its rural banks conduits. The repayment rate improved and the savings generated reached P50 million. However, the clients did not like to pay the loans on a weekly or regular basis so payment was still seasonal.

In a 2005 study conducted by ACPC, most of the farmers are still net borrowers, i.e., the amount of loan balances exceed the amount of savings.

Dynamics of Related Issues

One assumption in agricultural microfinance, like in traditional microfinance, is that success is guaranteed if access to appropriate financial products and services are provided. However, this might not be the case all the time because there are other factors needed for success such as existence of support infrastructure, technical assistance of relevant sectors/agencies, and market linkages, among others.

In particular, there is a lack of documentation or study on the dynamics involved in unserved areas. Due to this, conditions or factors needed for microfinance operations to work in such areas cannot be ascertained. For example, it is not known if successful operations are limited to farm or individual level intervention or it involves sectoral and/or industry (value chain analysis) level type of intervention.

The Department of Agriculture is currently doing a value chain analysis per agricultural commodity, but its status/progress is not known.

Comments on Research Design

Literature Review

A historical timeline of agricultural credit provision and practices/methodologies can be plotted based on the surveys conducted by the SWS and the ACPC. The review will establish the premise of access to financial services.

Case Studies

The following areas can be looked into in writing the case studies:

1. Product Design (The research will determine the products, both financial and non-financial, and services being provided by the agricultural microfinance institutions.)
2. Client Needs (The research will ascertain the needs of the farmers in order to determine if they match the products and services being provided by the agricultural microfinance institutions.)
3. Sources of Funds (The research will determine how and what kinds of funds are sourced from both the formal and informal lenders.)
4. Uses of Funds (The research will determine how the borrowers use the agricultural loans that they obtained, i.e., are they used for its intended purpose or were they being used for other purposes?)
5. Savings Mobilization (The research will ascertain the savings mobilization strategy, if any, of the agricultural microfinance institutions. On the client case studies, the different savings strategies will be determined.)
6. Organizational Design (The research will ascertain the organizational structure, systems, processes of the loan providers. For example, the amount and management of the agricultural microfinance loan portfolio should be compared against the other loan portfolios).

Possible Caseleads

Institutions providing loans and farmers engaged in rice and corn production will be the subjects of the preliminary batch of case studies. Rice and corn were selected because they are the dominant crops cultivated in the Philippines in terms of land area.

The following institutions volunteered to be the subjects of the case studies:

Microfinance Access to Banking Services (MABS)

MABS changed its approach in agricultural loan provision by requiring borrowers/households to have other sources of income besides agriculture. MABS also veered away from supervised credit and instead extended loans based on the needs, capacity, and cashflow of the farmers. Loans are paid on a regular basis (e.g., weekly, semi-monthly, monthly).

The following banks under MABS that provide loans to rice farmers are:

- First Valley Bank in Lanao del Norte – Its 13 branches have been providing loans for the past three years.
- Valiant Bank in Iloilo – Its five branches have been providing loans for more than one year.
- Rural Bank of Dulag in Leyte - Its four or five branches have been providing loans for more than a year.

Agricultural Credit Policy Council (ACPC)

The ACPC, in collaboration with Landbank, has a special window called Rural Household Business Financing (RHBF). RHBF is an experimental microfinancing facility for households engaged in small-scale, quick-cash-generating farm and off-farm projects. It provides loans to agricultural households based on their cashflow. The maximum loan amount provided per borrower is P25,000. The loan conduits include 12 rural banks and one cooperative whose projects with ACPC have been in operation for two years. The approved credit line as of December 31, 2006 is P63 million and the loan repayment rate is 97.9 percent.

The Rural Bank of Pintuyan implements the RHBF program. The bank provides loans to rice farmers in Southern Leyte.

Quedan and Rural Credit Guarantee Corporation (QUEDANCOR)

Quedancor's Self-Reliant Team (SRT) is a loan package to finance agri-fishery production of hybrid rice and hybrid corn, fisheries and livestock as well as livelihood activities such as, but not limited to sari-sari stores and carinderia operations, food processing, trading of agricultural products, construction and upgrading of small agri-fishery facilities. SRT is a non-collateralized and low-interest credit scheme that caters to the capital needs of the marginalized agricultural workers

A cooperative in Puerto Princesa has been providing loans under the SRT program for different types of crops.

Research Process

MCPI and AIM will meet the three funders mentioned above to discuss further details of their agricultural loan programs, including the organizations that they are working with. Once the organizations have been chosen, MCPI will write a letter to them to explain the research project and to request their cooperation in documenting their experiences in the provision of agricultural microfinance loans. The funders will be furnished copies of the letters.

The first research project milestone is the completion of the literature review on agricultural microfinance in the Philippines and the case studies outline.

The second milestone is the completion of the first five cases (two institutions and three clients). Six months will be allotted for the writing of these cases. Once the cases have been written, they will be presented to the group and other stakeholders to solicit suggestions on how to further improve the research project. The next batch (two institutions and three clients) will be written thereafter. Workshops will be conducted to disseminate the research findings. The whole research project is expected to be finished in one year.

The cases will be available to the public and the funders will be given co-authorship, if requested.

Exhibit 1
List of Participants in the Agricultural Microfinance
Round Table Discussion

Name	Organization
Agabin, Meliza	RBAP-Microenterprise Access to Banking Services
Agarrado, Ma. Teresa	Asian NGO Coalition for Agrarian Reform and Rural Development
Almendral, Alex	National Confederation of Cooperatives
Bautista, Hermeo	Land Bank of the Philippines
Buenaflor, Nelson	Quedan Rural Credit Guarantee Corporation
Canlas, Josephine	Development Bank of the Philippines
Carandang, Romeo	Development Bank of the Philippines
Chua, Ronald	Asian Institute of Management
Eslava, Sany	Asian Institute of Management
Garabig, Kennedy	Agriculture Credit Policy Council
Garcia, Edgardo	Microfinance Council of the Philippines, Inc.
Joyas, Lalaine	Microfinance Council of the Philippines, Inc.
Lomboy, Cristopher	Punla sa Tao Foundation
Masilungan, Eo	Asian Institute of Management
Quianzon, David	Small Business Guarantee and Finance Corporation
Sicat, Allan	Microfinance Council of the Philippines, Inc.
Songco, Danilo	PinoyME
Torres, Ma. Victoria	National Livelihood Support Fund
Yedra, Ramon	Agriculture Credit Policy Council

Exhibit 2

Background of the Agricultural Microfinance Research Project

Project Objectives:

- To determine access to financial services of households engaged in agricultural production.
- To determine spending and savings pattern of households engaged in agricultural production
- To document successful and innovative financing schemes/practices in agriculture

Expected Outputs/Activities

- Literature review on agricultural microfinance in the Philippines
- Four institutional case studies (to highlight critical elements to consider when establishing agricultural microfinance operations, as well as factors contributory to continuing operations; document pitfalls experienced by MFIs and how these challenges were overcome)
- Six profile of families engaged in selected agricultural activities. The cases will document a range of topics in terms of topographical area (upland, lowland, coastal) and products (e.g., rice, corn, coconut, sugarcane, vegetable, banana, high-value crops, livestock, and fisheries)
- Video documentation of the cases
- After half of the cases have been written, a workshop involving key informants to solicit feedback and validate research direction
- Dissemination workshops in Luzon, Visayas, and Mindanao
- Integration paper to summarize key findings, lessons/insights, and recommendations

Data to be Gathered

- Profile (geographical, economic, social, political) of the areas of operation of each MFI and household
- Institutional (history, vision/mission/ objectives, products and services, client profile, organizational structure, operational/financial/ human resource management/MIS/marketing strategies)
- Household (personal background, main and other sources of income, source/s of capital, production/postharvest/marketing practices, cashflow pattern - expense and savings, factors that facilitate economic development, improvement in the life after provision of financial services, factors that hinder economic development)