MAKING MICROFINANCE WORK FOR AGRICULTURE

A monograph of the John J. Carroll Institute on Church and Social Issues

With funding assistance from the Interchurch organisation for development cooperation (ICCO)

and Peace and Equity Foundation (PEF)
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# ACRONYMS AND ABBREVIATIONS

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACPC</td>
<td>Agricultural Credit Policy Council</td>
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<td>ACSI</td>
<td>Amhara Credit and Savings Institution</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFA</td>
<td>Asian Farmers’ Association for Sustainable Rural Development</td>
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<td>AFMA</td>
<td>Agriculture and Fisheries Modernization Act</td>
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<td>AIM</td>
<td>Asian Institute of Management</td>
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<td>AMCFP</td>
<td>Agricultural Modernization Credit and Financing Program</td>
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<td>APP</td>
<td>Alternative rice production pattern</td>
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<td>ARB</td>
<td>Agrarian reform beneficiary</td>
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<td>ARC</td>
<td>Agrarian reform community</td>
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<td>ARCDP</td>
<td>Agrarian Reform Communities Development Program</td>
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<td>ARMM</td>
<td>Autonomous Region of Muslim Mindanao</td>
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<td>ASA</td>
<td>Association for Social Advancement</td>
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<tr>
<td>ATM</td>
<td>Alternative trading and marketing</td>
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<tr>
<td>AUF</td>
<td>Aquinas University Foundation</td>
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<td>BFAR</td>
<td>Bureau of Fisheries and Aquatic Resources</td>
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<td>BLUMPCI</td>
<td>Barangay Lati United Multi-Purpose Cooperative, Inc.</td>
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<td>BSP</td>
<td>Bangko Sentral ng Pilipinas</td>
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<tr>
<td>CA</td>
<td>Compulsory acquisition</td>
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<td>CARP</td>
<td>Comprehensive Agrarian Reform Program</td>
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<tr>
<td>CBCRM</td>
<td>Community-based coastal resource management</td>
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<td>CBCS</td>
<td>Cooperative Bank of Camarines Sur</td>
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<td>CDA</td>
<td>Cooperative Development Authority</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>CIIF</td>
<td>Coconut Industry Investment Fund</td>
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<td>CLOA</td>
<td>Certificate of Land Ownership Award</td>
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<td>CNIBP</td>
<td>Camarines Norte Institution Building Program</td>
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<td>CPL</td>
<td>Crop production loan</td>
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<td>DAR</td>
<td>Department of Agrarian Reform</td>
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</table>
DCP  Directed credit programs
DENR  Department of Environment and Natural Resources
DIFF  Diversified and integrated farming technology
DTI  Department of Trade and Industry
EO  Executive Order
FAAMC  Fisheries and Aquatic Resources Management Council
FGD  Focus group discussion
FSP  Fishery Sector Program
GOL  Government-owned land
GRT  Group recognition test
GTZ  German Technical Cooperation
IFOAM  International Federation of Organic Agricultural Movements
IMC  Inter-Island Management Council
INAFI-Phil  International Network of Alternative Financial Institutions-Philippines
ISO  Institute of Social Order
KALIKASAN-NE  Kalipunan ng mga Magbubukid para sa Likas-Kayang Pananakahan sa Nueva Ecija
KOOLO-NE  Kooperatibang Likas ng Nueva Ecija
LEIRP  Low external input rice production
LCO  Local community organizer
LGU  Local government unit
LRF  Loan Revolving Fund
MAS  Micro-Account Specialist
MASIPAG  Magsasaka at Siyentipiko Para sa Ikauunlad ng Agham Pang-Agrikultura
MAV  Minimum Access Volume
MCPI  Microfinance Council of the Philippines, Inc.
MFI  Microfinance institution
MJ  Minadong Jol Association
MPP  Mode of rice production pattern
NACA  Network of Aquaculture Centers in Asia-Pacific
NAPC  National Anti-Poverty Commission
NATCCO  National Confederation of Cooperatives
NCC  National Credit Council
NFA  National Food Authority
NGO  Non-government organization
NIA  National Irrigation Administration
NLSF  National Livelihood Support Fund
<table>
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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>NWTF</td>
<td>Negros Women for Tomorrow Foundation, Inc.</td>
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<td>OCCP</td>
<td>Organic Certification Center of the Philippines</td>
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<td>OLT</td>
<td>Operation land transfer</td>
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<td>PAR</td>
<td>Portfolio-at-risk</td>
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<td>PAL</td>
<td>Private agricultural land</td>
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<td>PCA</td>
<td>Philippine Coconut Authority</td>
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<td>PCFC</td>
<td>People’s Credit and Finance Corporation</td>
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<td>PCGG</td>
<td>Philippine Commission on Good Government</td>
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<td>PCIC</td>
<td>Philippine Crop Insurance Corporation</td>
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<td>PD</td>
<td>Presidential Decree</td>
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<td>PhilRice</td>
<td>Philippine Rice Research Institute</td>
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<td>PO</td>
<td>People’s organization</td>
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<td>PRODEM</td>
<td>Promotion and Development of Microenterprises</td>
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<td>PRRM</td>
<td>Philippine Rural Reconstruction Movement</td>
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<td>QR</td>
<td>Quantitative Restrictions</td>
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<td>RTD</td>
<td>Roundtable discussion</td>
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<td>SALP</td>
<td>Support to Alternative Livelihood Program</td>
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<td>SEARCA</td>
<td>Southeast Asian Regional Center for Graduate Study and Research in Agriculture</td>
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<td>SEED</td>
<td>Small Enterprise Economic Development Project</td>
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<td>SRA</td>
<td>Social Reform Agenda</td>
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<td>SRI</td>
<td>System of rice intensification</td>
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<tr>
<td>SusAg</td>
<td>Sustainable agriculture</td>
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<tr>
<td>UCPB-CIIF</td>
<td>UCPB-CIIF Finance and Development Corp.</td>
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<td>VCO</td>
<td>Virgin coconut oil</td>
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<td>VLT</td>
<td>Voluntary land transfer</td>
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<td>VOS</td>
<td>Voluntary offer to sell</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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INTRODUCTION

The Philippines remains largely agricultural. Of the 12 million hectares of farmlands all over the country, thirty-three percent or about 3.96 million hectares is devoted to rice. Eleven million farmers and family members depend on the rice industry as their primary source of livelihood. Sugar lands comprised almost a million hectares as of 2004. Another 3.24 million hectares were devoted to coconut as of 2005 with over 324 million bearing and non-bearing trees, of which 85 percent was considered productive. The number of coconut farmers is estimated at 3.5 million, but 25 million Filipinos or around one-third of the country’s population are directly or indirectly dependent on the industry. And with 7,100 islands, 65 out of 81 provinces with access to the sea, and over 1,000 municipalities located in coastal areas, fishing is one of the dominant economic activities in the country. Sadly, the farming and fishery sectors can barely make ends meet despite the seeming richness of the country’s agricultural and natural resources.

The opportunities that microfinance opens for access to capital and prospects of increased income for the poor household thus bode well for these poor agricultural sectors. However, the problem lies on the schemes of microfinance which seem to work best in an urban setting. Recent developments here and abroad, on the other hand, show various modes and innovations introduced in microfinance to fit agriculture.

This study showcases the innovations designed or adjustments made by four selected microfinance institutions (MFI) to cater to the microfinance needs of their agricultural clients — the coconut farmer, the fisher, rice farmer and sugar farmer/worker. Each case is unique, yet it also shares common ground for relevant policies and programs that can be implemented in the agricultural sector.

We are grateful to the Interchurch organisation for development cooperation or ICCO and the Peace and Equity Foundation for funding the various research activities related to this study. From the conduct of a roundtable discussion, actual data gathering and analysis, to the holding of a forum for presentation of the cases, these two organizations have been very supportive. We appreciate
the fact that although these two institutions were already involved in similar endeavors, they still found it useful to be part of this study.

We would also like to thank the four case-MFIs – Kooperatibang Likas ng Nueva Ecija (KOOL-NE), Negros Women for Tomorrow Foundation, Inc. (NWTF), Cooperative Bank of Camarines Sur Inc. (CBCS) and Inter-Island Municipal Council Inc. (IIMC) – for their willingness to share their stories, no matter how difficult and painful some experiences and processes may have been for them. We are grateful for the time and resources that these MFIs have spent to coordinate with their clients so that the researchers could safely go on field to gather primary data. The client-interviewees were equally cooperative and open in sharing their experiences and dealings with the MFIs.

Both MFIs and clients in this study may have learned that adopting microfinance for agriculture is difficult. However, every setback they encountered in their experiments was considered as a challenge or opportunity rather than a threat or problem. May their example serve as our inspiration.
MICROFINANCE AND AGRICULTURE

Microfinance is intended to cater to the financial needs of the poor. Its key features include loans in small amounts which are non-collateralized and paid weekly, and provisions for savings and capital build-up. The weekly payment has proven to be feasible specifically in the informal economy of the urban setting more than in the rural areas. One harvest season for rice is six months, three to four months for corn, eight months for sugar, and one and a half months for coconut. Fish and other marine resources may be caught daily, but over-fishing and illegal fishing have resulted to scantly harvests. The farmers and the fishers, therefore, will have to rely on other income sources to be able to comply with the weekly or monthly savings and payment of microfinance loans.

While the microfinance industry has grown tremendously both here and abroad, it has never been insulated from risks in various forms. Dr. Nimal A. Fernando, Lead Rural Finance Specialist (Microfinance) of the Asian Development Bank, emphasized the need for actual experiences in risk management. He also outlined different categories of risks that microfinance institutions (MFI) face. The foremost concern was financial, particularly on credit risk and liquidity risk. Over the last two decades, the profile of microfinance risk has changed to include social mission risk, foreign exchange risk, competition risk, political and reputation risk.¹

The inherent risks of agriculture even add to the foregoing list. As it is, agriculture is already considered more risky than trade and industry since it is more easily affected by the vagaries of the weather, pests, diseases and other natural calamities. Returns in agriculture are unpredictable and are generally lower than those in commerce or non-farm micro-enterprises. The geographic location of the land, non-ownership of the land, engaging in mono-cropping, and markets and prices which the farmers and fishers cannot control further pose risks and difficulties.
Yet majority of the poor in the Philippines come from the rural areas and are tied to agriculture. Agriculture accounts for one-fifth of the country’s gross domestic product and employs 40 percent of the Filipino workforce. The poor in the countryside are directly or indirectly dependent on the agricultural sector for subsistence and livelihood as tenant farmers, landless agricultural workers, forestry workers and fishers.

What microfinance practices and schemes will then suit the situation of the poor rural farmers, particularly the coconut and rice farmer, sugar worker, and the fishers? What laws or policies ought to be created in the rural financial markets and microfinance in particular to benefit the agricultural sector?

In order to shed light to these questions, this research on agricultural microfinance aims to bring out and share appropriate schemes and practices of microfinance for the farmers and fishers as well as influence the formulation of policies that will make microfinance work for the agricultural sector. In particular, this study:

- Documents the practices and processes of four (4) MFI/cooperative cases in offering innovative financing schemes for the coconut farmer, rice farmer, sugar farmer/worker and fisher;
- Identifies salient or specific features of microfinance programs and packages that are shown to be useful and may be adopted for each of the identified agricultural sectors;
- Attempts to influence MFI practitioners with agricultural clients to adopt similar practices and schemes;
- Provides examples of microfinance products/schemes offered by international MFIs for the agriculture group;
- Reviews Philippine policies in rural finance, with particular attention to microfinance, that affect agriculture and fisheries; and
- Surfaces issues and propose relevant policies in microfinance that will fit the intricacies of agriculture in the Philippines

Framework for Documentation

The guide for documentation follows a commonly-used framework called the systems analysis approach. Key inputs for the MFI include the political, economic, technological and socio-cultural context or situation each agricultural sector is in. While the situational analysis attempts to cover all aspects for all sectors, the uniqueness of the situation of the coconut farmer, rice farmer, sugar worker and the fisher largely dictates the context or background of each sector. For instance, the economic and technological considerations
might be more critical for the coconut sector given the long-gestation period of planting coconuts and the abundant potential of the crop. Or the political economy and social structures surrounding sugar communities may be more relevant or salient to describe the situation of sugar workers.

The foregoing context along with decades-old and current financial policies for Philippine agriculture (key and supporting inputs) are considered by the MFI (throughput) which endeavors to be relevant in addressing the financial needs of its poor agricultural clients. These should serve as the reference or guide for the MFI in its practices and processes to come up with appropriate products and services, schemes or approaches (output) for the sector it serves. A review or evaluation is conducted to see how effective and constructive the said products and schemes have been in uplifting the situation of the farmers and the fishers (feedback).

**Figure 1. Framework for Documentation**

```
Financial policies that influence the conduct of agriculture and agri-microfinance in the Philippines (Input)

Context and situation of the coconut farmer, rice farmer, sugar farmer/worker and fisher
- Political
- Economic
- Technological
- Socio-Cultural
  (Input)

The MFI / Cooperative Organization (Throughput)

Microfinance products and services, schemes and approaches specific to the coconut farmer, rice farmer, sugar farmer/worker and fisher
  (Output)

Review/Evaluation (Feedback)
```
Content

The research reviews the literature and relevant financial policies that influence the conduct of agriculture in the Philippines. It outlines and looks into the various efforts taken by the government and non-government or private institutions relative to financing and financial policies with the end in view of developing and promoting agriculture. With the mainstreaming of microfinance and the government’s more aggressive stance to promote it to assist the basic sectors, it may be valuable at this point to look into various microfinance initiatives intended for agriculture.

The study gathers data from specific MFI cases which endeavor to offer relevant and innovative financing schemes for the coconut farmer, fisher, rice farmer and sugar worker. Documenting the practices and processes of the four MFI-coop cases reveals features which turned out to be successful or unsuccessful, workable or not workable for the agricultural setting specific to the identified sectors, and suggests pertinent policies to make microfinance and agriculture more compatible.

Each MFI case begins with a context or background on the plight of the farmer/fisher, and the MFI’s resolve to cater to these agricultural sectors, its initial plans and designs in helping out the sectors. The process of designing the financing products and services, and the description of the actual schemes follows. Taking off from the roundtable discussion held for the purpose of this research, the data gathered from the MFI cases shed light on the continuing rural finance issues on appropriate or workable features for the different agricultural sectors. Among these issues are the adoption of a minimalist versus an integrated approach, basis of granting loan amounts, to accept collateral or not, and pegging of interest rates are tackled. Overall problems and issues encountered from the design to actual implementation, and how these were resolved are shared.

Lessons and insights on effective ways or approaches to mix microfinance with agriculture were gathered, even if it would mean modifications in microfinance schemes to fit actual situations in agriculture.

The study ends with recommendations on the effective implementation of microfinance programs for agriculture. This covers identification of workable and non-workable features as well as policy advocacies that would make microfinance suitable for the country’s farmers, specifically coconut farmers, fishers, rice farmers and sugar farmers/ workers.
Methodology

The following methodologies were employed to gather the data:

1. Conduct of a roundtable discussion (RTD) as prelude to actual research to initially surface issues in implementing microfinance for agriculture. The RTD, held in November 2006, allowed an organic rice cooperative and a fishers cooperative to share the innovations on microfinance that they have already made to address the financial needs of their farmer or fisher-clientele, and issues that arose with the introduction of new schemes for agriculture. A third presentation was on the support to rural finance of the Agrarian Reform Communities Development Program (ARCDP) of the Department of Agrarian Reform (DAR) which showed the framework and actual assistance of micro and agri-finance given to agrarian reform communities (ARC). An open discussion followed to allow comments or reactions on the brief presentations with the objective of making microfinance more suitable on field, surfacing further issues and espousing necessary policies that would support microfinance for agriculture.

The RTD was a half-day activity which involved around 30 representatives from various key practitioners, government, non-government and people’s organizations.

2. Review of literature and pertinent policies, which showed the local and international initiatives on agricultural microfinance within the country and abroad. Risks of microfinance in engaging agriculture, and the ways to manage them, are also discussed. The review of policies and initiatives by various government and non-government institutions is meant to determine the extent of support given, or the lack of it, to make microfinance work for agriculture.

3. Key informant interviews and focus group discussions with the officers and staff of the MFI-coops, member-borrowers of the communities, and other stakeholders in the area. The MFIs were also requested copies of their organization’s profile, annual reports, if any, and other internally relevant or published materials.

4. Interviews with networks like the Microfinance Council of the Philippines, Inc. (MCPI) and the International Network of Alternative Financial Institutions (INAFI), and government entities like Agricultural Credit Policy Council (ACPC), Bangko Sentral ng Pilipinas (BSP) and Land Bank were conducted to gather inputs primarily for the review of policies.
5. Holding of a forum to enhance the findings of the research. The forum aimed to present the MFI-coop cases in more detail and an analysis of the cases with perspectives coming from the different stakeholders involved in the delivery of microfinance for agriculture.

A resource speaker was also invited to share inputs on existing or prospective policies supporting the implementation of microfinance for agriculture in the Philippines.

**Selection of Cases**

The cases documented in this research are the following:

1. Cooperative Bank of Camarines Sur Inc. (CBCS) catering to the coconut farmers’ microfinance needs,
2. Inter-Island Municipal Council Inc. (IIMC), a people’s organization of fisherfolk based in Brgy. Mercedes, Daet, Camarines Norte,
3. Kooperatibang Likas sa Nueva Ecija (KOOL-NE), an organic rice farmers’ cooperative, and
4. Negros Women for Tomorrow Foundation, Inc. (NWTF), a big MFI in Negros Occidental catering to sugar farmers/workers

The cases were selected based on the type of clients served and to ensure that the various agricultural sectors are covered. Also considered were the level of microfinance portfolio for agriculture or fishery, the amount of experience they can share, and the willingness of the MFI to be involved in the research.

The key informants from the organization and communities were identified with the help of the case-institutions. Other interviewees within and outside the MFIs and the communities were selected as the key informant interview process progressed. An interview guide was designed (Annex 1).

Other data sources include reports, papers and documents reviewed.

**Limitations/Issues of the Study**

Finalizing the cases for study was not an easy task. The original proposal planned to involve three (3) MFIs, i.e. a farmers’ group, a fishers’ group and a big MFI. At the onset, the big MFI invited to this research declined to participate due to its self-perceived
limited experience in offering microfinance services to agricultural clients. Another big MFI and several rural banks offering microfinance to the farming sector were also invited. But everyone hesitated or outrightly refused to present their case owing to their perceived lack of substantial experience in agricultural microfinance. In the course of inviting the rural banks to this research, it was learned that many of these banks participated in DAR’s Agrarian Reform for Community Development Program (ARCDP) to be able to offer financing services to the farmers. In place of the big MFI, therefore, ARCDP II was instead presented during the roundtable discussion held in November 2006. The farmers’ group was KOOL-NE while the fishers’ group was Barangay Lati United Multi-Purpose Cooperative, Inc. (BLUMPCI) of Orion, Bataan. NWTF’s attendance in the RTD and sharing of its experience during the open forum gave the research team the cue to look into innovative schemes offered to sugar farmers and workers, and to consider cases outside of Luzon that are worthy of documentation.

With three different agricultural sectors ready for study, i.e., rice, fish and sugar, the research team decided to include a fourth major crop which is coconut. Cooperative Bank of Camarines Sur (CBCS) for the coconut farmer was firmly up as a case after consultations with the Philippine Rural Reconstruction Movement (PRRM) and UCPB-CIF Finance and Development Corporation. The inclusion of Inter-Island Management Council (IIMC), following consultations with National Confederation of Cooperatives (NATCCO) and the Institute of Social Order (ISO), was made after BLUMPCI was unable to continue its participation in this research to attend more to its organizational concerns.

**Review of Related Literature**

**Risks In Agricultural Microfinance**

Engaging in a credit business already entails risks. Dr. Nimal A. Fernando, ADB Principal Finance Specialist, presented categories of microfinance risks at the Regional Experts’ Consultation Meeting held in the Philippines in March 2007. He cited that most MFIs were concerned with financial risks, specifically credit and liquidity risks, during the first stages of the development of the industry in the Philippines. With the evolution of the industry in the last two decades, additional risks came into being. A GTZ study in 2000 listed three major categories of risks namely financial, operational and strategic. A more recent study by Churchill and Frankiewicz (2006) revealed the following classifications: institutional, operational, financial management and external risks. The institutional type included risks in social mission and reputation; operational risks pertained to credit and fraud as well as security and personnel; the financial category had asset and liability management and system integrity; and the external risks cited competition, political and environmental factors, among others.
Lending for agriculture poses even more risks apart from the ones already inherent to a lending or financial institution. In another paper presentation during the same regional consultative meeting, ASA President Md. Shafiqual Haque Choudhury shared that in Bangladesh (where microfinance was initially made popular by Professor Muhammad Yunus), there are numerous problems that hound the agricultural sector, and consequently agricultural microfinance. He cited natural calamities in the form of heavy rainfall, flood, pesticide attack, cyclone and drought. The farmers also suffer from shortage of land, lack of capital, inadequacy of appropriate technology, an underdeveloped marketing system causing the uncertainty of fair prices of commodities and unavailability of storage facilities.

Returns in agriculture are not only volatile but usually lower than non-farm micro-enterprises, hence turning out to be more risky. Agricultural folk located in areas more vulnerable to disasters, poor farmers and households engaged in mono-cropping, landless farmers and workers, and unworkable guarantee and insurance schemes are added major risks in lending for agriculture.

Recognizing the above-cited risks, Md. Shafiqual Haque Choudhury in his paper presentation proposed possible solutions such as the modernization of agriculture to increase productivity, financing of agriculture in an innovative way, and state assistance or government patronization.

Managing the Risks

After listing down the many risks associated with microfinance per se, and especially when catering to the agricultural sector, Dr. Nimal Fernando suggests risk management which is about systematically identifying, measuring, limiting and monitoring risks faced by an institution (Managing Microfinance Risks: Some Observations and Suggestions, 2007).

Dr. Fernando offers some general principles of risk management. A comprehensive approach covering all types of risk is needed since most risks are interrelated. Liquidity risk, for instance, may lead to credit risk if borrowers begin to doubt the MFI’s ability to provide loans on a continuing basis. Credit risk, on the other hand, may worsen liquidity risk. This comprehensive risk management system should integrate a feedback mechanism that will involve both management and staff.

The task of managing risks ought to be a continuing process, and must not be performed merely to meet regulatory and supervisory requirements. It needs to be seen as a way to ensure financial soundness, growth and stability for the MFI to achieve its mission.
To manage the risks in agricultural microfinance, he suggests eleven strategies. To name a few, he said that MFIs should take the external environment as a given, and build on their internal capacities to combat uncontrollable risks. He advises lending to a wide variety of farming households, including clients engaged in more than one crop or livestock activity. Another strategy is to build partnerships and alliances involved in the value chain of farming activities. And as a final suggestion, he recommends providing loans for building assets that could reduce inherent risks in agriculture microfinance in the long term.

**Examples of Agri-Microfinance Lending Practices and Schemes Here and Abroad**

Barring the aforementioned risks and the effective ways of managing these risks, there are notable practices in agricultural credit documented here and abroad. Mr. Raul P. Gonzalez (2003) synthesized the best practices in farm credit programs of two banks, a cooperative, a foundation and a grassroots organization in the Philippines. The study presented how the credit programs were implemented vis-à-vis the organizations’ respective vision, mission, internal capacities and the rural financial system within which they operated.

Four out of the five cases had a small loan portfolio for agriculture (ranging from 6-37 percent of total loan portfolio). This indicated that the institutions were acting prudently by diversifying their portfolios instead of focusing only on farm credit. Loans were granted for various purposes such as: working animals, cattle raising, farm machinery, house renovation, agricultural lot purchase, hospitalization, emergency loan for agricultural inputs and debt restructuring (to liquidate debt with a trader). Three of the institutions provided the loan, the whole or a portion of it, in kind and not in cash.

Interest rates ranged from 1.75 percent to three percent per month. Term of loan was six months and below, except for the fixed asset loans which were expected to be paid in two to three years. Loan security consisted of non-traditional forms like group guarantee and assignment of savings while a few required some movable properties such as appliances and motor vehicles.

Agricultural loans were largely paid in lump sum. One case introduced the 40-60 scheme for repayment whereby 40 percent is paid on a weekly basis over a five-month loan period and the balance of 60 percent at the end of the loan term. The three institutions which granted loans in kind were also paid back in kind. Albeit packaged in different products and approaches, all five cases offered savings products to their poor clients.
Reflecting on the experiences of various MFIs in Thailand, Cambodia, Indonesia, India and the Philippines, Tangthirasunan (2007) traced the challenges of making microfinance work for agriculture to the nature of the sector’s activities. The lump sum amount requirements and long gestation periods mainly made it difficult for poor farmers and fishers to pay small amounts in short, regular intervals. Microfinance institutions abroad have nonetheless adopted innovative schemes that would suit the needs of the otherwise risky agricultural sector and overcome the unattractiveness of serving the sector.

A study by the Consultative Group to Assist the Poor or CGAP (Pearce, et al. 2004) discussed several methodologies to increase the involvement of MFIs in providing financing for agriculture. Among them was the adoption of flexible loan disbursement and repayment schedules that matched agricultural production. The documentation cited as an example the soya farmers of Bolivia who borrowed from PRODEM, a rural MFI, repaying only the principal during periods of income from harvest. Calpiá, an MFI in El Salvador, collected repayment in varied frequencies—bimonthly, trimester, semester, annual and end-of-crop cycle—depending on the nature of the agricultural activity and repayment capacity of their clients. In Sri Lanka, the Paddy Loan Scheme of the Agri Micro Finance (www.agromicro.org) particularly financed the credit needs of paddy cultivators for agriculture related activities. Loans granted through this scheme were used for land preparation and purchase of fertilizer, to be repaid in full amount at the end of six months after the harvest.

For clients without any asset to offer as collateral, particularly land, the same study of CGAP suggested alternatives such as movable assets and group guarantees. In Uganda, livestock, household items and business equipment were accepted as collateral by the Centenary Rural Development Bank. This way, CGAP noted, the MFI could also avoid land rights disputes and costly process of land registration. In Ethiopia, the Amhara Credit and Savings Institution or ACSI used the Group Guarantee and Lending Model with five to seven members per group for the purpose of sharing a mutual loan repayment guarantee (ACSI 2004). In such way, loan repayment could be guaranteed even without the usual collateral requirement, which their asset-less clients could not provide.

Loan portfolio diversification and extending credit to diverse households are also possible measures to minimize the risks of agricultural lending. MFIs could, for instance, apportion part of their portfolio to urban-based credit products, which would cross-subsidize agricultural loans that generate lower returns (CGAP 2006). Household diversification, on the other hand, involves lending to those who are not dependent on a single crop and have off-farm incomes. CGAP, however, noted that “although it is effective, it does have the drawback (from the perspective of poverty reduction and market
development) of limiting the access to credit of poorer farmers from marginal rural areas who are dependent on agriculture (Pearce, et al.)."

**Agricultural Microfinance Research Project of the Microfinance Council of the Philippines, Inc. and the Asian Institute of Management**

Finally, another research on agricultural microfinance is being jointly conducted by MCPI and the Asian Institute of Management (AIM) with the following objectives: (1) To determine the access to financial services of households engaged in agricultural production; (2) To determine the spending and savings pattern of households engaged in agricultural production; and (3) To document successful and innovative financing schemes/practices in agriculture.

An RTD was held in July 2007 to present the first batch of cases consisting of three institutional and three client cases, and yielded several recommendations and insights.

First, is the realization that the same set of microfinance principles and best practices apply for both agricultural microfinance and regular microfinance. Both types of loans have the same issues and challenges, especially in managing and reducing risks.

Second, it was recommended that MFIs come up with more area-specific responses because the needs and requirements of clients vary in every location where the MFI operates. For instance, exposure to agricultural risks varies from area to area. Not all agricultural ventures are risky because there are areas, like the ones in the case study, which were not adversely affected by natural calamities.

Two ways of determining loan amount and amortization provided to the clients were also recommended. One is through the supervised/directed method whereby the loan amount is pre-determined by the lender (similar to what Quedancor implemented in Palawan), and the other is through the computation of the borrowers’ cash flow. It was further recommended that the MFIs perform a cost-benefit analysis of the resources and time they are willing to spend vis-à-vis their expected returns.

The need for investment in research on the issues affecting agricultural microfinance was also noted. A particular area that has not been fully studied is risk management.

Another batch of cases is being finalized by the research team and will be presented in another roundtable discussion. An integrative report involving the two batches of cases will then be written.
Review of Relevant Laws and Policies influencing Agriculture and Agri-microfinance in the Philippines

Because agricultural microfinance in the country (as a sub-sector of microfinance) has developed only in recent years, no law or policy dedicated to its promotion has actually been enacted. The Philippines, however, is not bereft of laws and policies in support of agriculture and fisheries on one hand, and promoting microfinance on the other hand, which can affect the conduct of agri-microfinance.

The Agri-Agra law or PD 717, for instance, was created way back in 1975 to enhance the flow of credit to agriculture. It mandated all banks to set aside 25 percent of their loanable funds to agricultural credit—15 percent for agriculture and ten percent to agrarian reform beneficiaries. Purposes for financing could span from working to fixed capital for production to processing and marketing activities.

Realizing the risks of agricultural production in a country that is prone to natural disasters like typhoons, flood and drought, the Philippine government promulgated Presidential Decree 1467 to create the Philippine Crop Insurance Corporation (PCIC) and implement an insurance program in 1981, initially for rice and corn.

The 1990s saw a string of Republic Acts that aimed to promote agriculture and industry, and to ensure access of the poor to resources, income opportunities and support services. “The Social Reform and Poverty Alleviation Act” or RA 8425 was promulgated to adopt the social reform agenda (SRA) that would address the multi-dimensional concerns of poverty from social (access to basic services) to economic (asset reform and access to income opportunities) to ecological (sustainable development of productive resources) and governance dimension (decision-making and management processes) of the basic sectors led by the small farmers and fishers. The Act established the National Anti-Poverty Commission (NAPC) to oversee the implementation of the SRA. In Sec.13, it specified the support thrust of microfinance programs which included (1) an enabling policy environment for private sector participation, (2) rationalization of government programs for credit and guarantee, (3) utilization of government facilities for microfinance services, and (4) promotion of mechanisms such as sharing of methodologies and best practices. The same Act strengthened the role of the People’s Credit and Finance Corporation (PCFC) as the lead government agency specifically tasked to provide the poor access to credit and other microfinance services to improve their economic condition.

The National Strategy for Microfinance finalized in 1997 and presented to the First Microfinance Summit in Washington DC elaborated on RA 8425. It chiefly stressed the
greater role of the private MFIs in the provision of financial services, and the creation of an enabling policy environment by government that will facilitate the expected increase in participation of the private sector in microfinance.

The involvement of BSP in microfinance towards the new millennium, for instance, has instigated increased interest on the part of the private sector, and ushered in more funds and assistance from government agencies. The National Livelihood Support Fund and the Development Bank of the Philippines offered wholesale lending to MFIs which, in turn, could retail to farmer-clients. Microfinance-oriented banks were granted branching privileges by BSP. A rediscounting window for microfinance loans was opened. In May 2007, BSP Governor Amando Tetangco Jr. confirmed the adoption of less tedious requirements and simplified documentation of microfinance for agricultural loans to encourage more micro-lending in the sector.

Provisions for access to credit by small farmers and fisherfolk, especially women, were also outlined in Chapter 3 of the “Agriculture and Fisheries Modernization Act (AFMA) of 1997” or RA 8435. It ordered the phase-out of direct credit programs (DCP) and provided for the Agro-Industry Modernization Credit and Financing Program which packages various credit assistance programs for the working and fixed capital needs of the said sectors. All existing credit guarantee schemes and funds for the agriculture and fishery sectors were also to be rationalized and consolidated into an Agriculture and Fisheries Credit Guarantee Fund.

The shield for the fishery sector was “The Philippine Fisheries Code of 1998” or RA 8550. The primary objectives which concerned the sector included the conservation, protection and sustained management of the country’s fishery and aquatic resources, and poverty alleviation and the provision of supplementary livelihood among municipal fisherfolk. In Sec. 24 of the Code, it articulated the support to municipal fisherfolk by the Department of Agriculture and the LGUs in the areas of appropriate technology and research, credit, production and marketing assistance and other services such as, but not limited to, training for additional / supplementary livelihood.

Laws and policies are apparently sufficient and in place, but implementation is wanting.

Implementation of the Agri-Agra law has reportedly been disappointing as Congress and BSP expanded the modes of compliance with the law by allowing other means like development loans to educational institutions, hospitals and socialized housing and loans to high-value commercial crops. Many of the funds still found their way to investments in commercial papers issued by companies engaged in agricultural production, processing, marketing and export, and in bonds or government securities.
The government treaded the right path in lending with the issuance of EO 138 in 1999. It fully adopted market-oriented financial and credit policies, allowed a greater role for the private sector to provide financial services to the basic sectors, and constricted the government from delivering credit services in favor of becoming an enabler to the market. But in an unexpected turn of events, President Arroyo repealed EO 138 in favor of EO 558 in August 2006 directing government entities involved in the implementation of credit programs to adopt the credit policy guidelines formulated by the National Credit Council (NCC), and allowing these agencies to retail credit in un-served areas of microfinance. Many of the MFIs foresaw a return to DCPs with this directive. The latest pronouncement on this issue was the government’s qualification of the EO (to 558a) that retailing of microfinance services by the government shall be confined to the 47 depressed and remote areas that remain un-served by the MFIs, e.g. Lanao Provinces in Mindanao and Aurora in Quezon.

The performance of the crop insurance has been problematic. From 1981-2000, number of farmers/policies written totaled to 3.5 million with a sum of PhP 31.6 million insured. Out of this insurance coverage, barely a million farmers were able to claim payments totaling to only PhP2.16 million. Insurance coverage began to decline with the contraction of the self-financed market while the borrowing farmer sector dominated the lines. PCIC’s situation was further aggravated with the high overhead and transaction costs it had to incur to service farmers from remote places, and insufficient government support in terms of investing in the program, thereby putting the program sustainability in peril.

Finally, an ACPC monitor published in 2002 revealed that the credit outreach under the credit component of the Fishery Sector Program (FSP) was low with only 22 percent of the borrower-respondents in priority areas being able to access a loan from the program. Mainly accounting for the low accomplishment was the unawareness of fisher-clients about the FSP and its credit component in particular. About three-fourths of program beneficiaries were unable to repay the loan for various reasons which included poor or delayed harvests, diversion of loan proceeds, usually for household consumption or emergencies and unwillingness of the borrower to pay.

It is sad to note that the assistance rendered to the fisherfolk in the country is comparatively less than what has been provided for the farmers. Annual budget for the Bureau of Fisheries and Aquatic Resources (BFAR) from 2004-2006 was consistently lower than the Department of Agriculture (DA) counterpart by around PhP10 billion.
Endnotes:

1 Fernando, Nimal. 2007. Title of Paper. Paper Presented at the SEARCA-initiated Regional Experts’ Consultation Meeting in March 2007

2 ARCDP is a World Bank-assisted project implemented by DAR, aimed at raising household incomes and the quality of life of the farmer-beneficiaries by improving their productive assets, rural infrastructure and access to key support services. In the end, it is hoped that the project would contribute to the reduction of poverty and better quality of life in the ARCs.
MAKING MICROFINANCE WORK FOR THE COCONUT FARMER

Cooperative Bank of Camarines Sur Inc., Naga City, Camarines Sur

The province of Camarines Sur is located in the central part of the Bicol peninsula which is at the southeastern part of the island of Luzon. It is bounded on the north by the provinces of Quezon and Camarines Norte, the province of Albay on the south, the island province of Catanduanes and Lagonoy Gulf on the east and Ragay Gulf on the west. About 450 kilometers from Manila, it takes almost eight hours to reach the place by bus.

Camarines Sur is the largest among the provinces in the Bicol region. It is divided into 4 districts with 35 municipalities, two cities and 1,063 barangays and populated by 1,551,549 people (Census 2000). It has a land area of 526,682 hectares or 5,266.8 sq.m., of which the predominant land use is agricultural at almost 300,000 hectares.
Rice and coconut are the leading industries in the province. Abaca and banana are next because of the kind of soil prevalent in the province. Pili trees, known for their nuts, grow abundantly in Camarines Sur. The capital town of Pili is named after the fruit. Except for some highlands found in some island towns such as Ocampo, Bao and Iriga, the rest are mountain ranges, which border the rugged coastlines. They surround the vast fertile plains and arable lowlands in some parts of the province.

Fishing is an important activity of its coastal towns. The smallest fish in the world called sinarapan is found in Lake Buhi. Cottage industries, also a rising source of income, include bamboocraft in the town of Nabua, embroidery for Bao and fibercraft for the rest of the province. Mining is a growing industry, too.

**Bane and Boon of being a Coconut Farmer**

Coconut farms are widely distributed nationwide, largely in regions of Southern Luzon in the North and Mindanao in the South. Of the 12 million hectares of farmlands all over the country, a total of 3,243,278 hectares was devoted to coconut in 2005 with over 324 million bearing and non-bearing trees, of which 85 percent was considered productive. More than 14 billion nuts were harvested in 2003-2004, while more than two million metric tons of copra were consistently produced from 2003-2005.

There is an estimated 3.5 million coconut farmers, but 25 million Filipinos or around one-third of the country’s population are directly or indirectly dependent on the industry. A core business in the industry is copra trading, which has been found to be profitable in the case of monopolies and big companies, but unremunerating for a coconut farmer with one hectare of land. Eighty percent of the country’s copra production finds its way into the export market while 20 percent is consumed locally.

Known as the “tree of life”, every part of the coconut tree in fact may be processed into an endless list of value added products such as soap and cooking oil from the meat, and quality paper pulp, midrib brooms, hats and mats, fruit trays, waste baskets, fans from the leaves. The fruit produces buko, often used for salads, halo-halo (crushed ice with sweetened fruit), sweets and pastries. A mature coconut, or niyog is used in making sweets and special Filipino dishes.

Coconut water is thrown away during copra making and becomes a great waste. But uses of coconut water include coconut water vinegar, coconut wine, production of the chewy, fiber-rich nata good as a dessert, and as a substitute for dextrose.

The husk is usually used as fuel for the household or as copra drier. But the fiber from
the husk may be processed into brushes, doormats, carpets, bags, ropes, yarn fishing nets, and mattresses, etc. Out of coir dust, also from the husk, may be obtained coco gas, plant hangers and plastic materials.

The shell produces the core of the most saleable household products and fashion accessories such as necklaces, bags, shell ladles, buttons, lamp shades, fruit and ash trays, placemats, coffee pots, cups, and wind chimes. The most important use of coconut shell is activated carbon produced from its charcoal. It is utilized in air purification systems such as cooker hoods, air conditioning, industrial gas purification systems, and industrial and gas masks.

Finally, hardy and durable wood is obtained out of the coconut trunk to make benches, tables, carvings, picture frames, tables, tool boxes, and construction materials. Medicine, beverages and dyestuff are obtained from the coconut roots.

Various technologies for processing into coconut-based products have been developed and tested, but very few have actually reached the production areas. Until today, the farmers burn the husk or shell to dry the low value output that is copra.

There is more to production of copra and coconut-based products in a hectare of coconut land. Over a hundred coconut trees are normally planted in a hectare. These trees occupy only about 20 percent of the land area while the remaining 80 percent is seldom maximized by the farmers. Two-thirds of the 3.2 million hectares reportedly remain devoted to a single crop.

**Sources of Income**

A small coconut farmer has an average of three (3) hectares of coconut land. Most of the coconuts harvested are used to produce copra which is the meat that is separated from the husk and shell, and then dried. It is the primary ingredient for cooking oil, desiccated coconut, coco flour, coconut milk, coconut chips and candies and animal feeds. The coconut oil extracted from copra is processed also to produce other products like soap, lard, coco chemicals, crude oil, pomade, shampoo, margarine and butter.

After waiting for about seven years for newly planted coconut trees to bear fruit, a small farmer harvests 1,500 kilograms of copra per hectare every 45 days. These are sold to the “comprador” at PhP15.00 per kg yielding for the farmer a gross income of PhP22,500 under a sharecropping system. Of this amount, the farmer gets 40 percent or PhP9,000 for his labor.
The comprador brings the copra to the milling center or sells it to the miller to manufacture products like cooking oil, flour, coconut milk and soap. The products are brought to the wholesaler, distributed to the retailer until it reaches the consumer.

But a coconut farming household of five to six members has other sources of income. Many engage in buying and selling of products which range from coco lumber, vegetables, fish and charcoal. Some have ventured into intercropping to maximize the land. Key informants estimated another PhP2,500 every week or PhP10,000 for the month from other sources of income.

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**Figure 2. Market Flow in the Coconut Chain**

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"Typhoon Belt" Bicol

Tropical climate is classified into four types. The prevailing climate in the Bicol Region is of the second and fourth type. The second type is characterized by a very pronounced maximum rainfall (November-January) and no dry season, and mostly in the areas of Catanduanes, Sorsogon, Eastern Albay and Eastern and Northern Camarines Sur and Camarines Norte. Burias Island of Masbate exhibits the fourth type wherein rainfall is more or less evenly distributed throughout the year. The third type where seasons are not very pronounced, relatively dry from November to April and wet during the rest of the year is prevalent in Masbate, Western Camarines Sur, Western Albay and Ticao.

The region experiences several typhoons in a year such that it has come to be known as the "typhoon belt" in the Philippines. When coconut plantations are damaged by typhoons, it usually takes two years before the trees bear fruit again. In 2006, the region was consecutively hit by two strong typhoons—*Milenyo* in September and *Reming* in November. An output reduction of about 360,000 metric tons was then expected from the destruction of agricultural lands, properties and infrastructures caused by these two typhoons. From a production forecast of about 2.51 million metric tons, the government had to adjust its projection down to 2.1 million for the year due to significant damages sustained by the coconut farms.
The Coco Levy

Historically, there has been minimal intervention coming from the government specifically in terms of rehabilitating the industry. In 1973, then President Ferdinand Marcos established the coconut levy to be imposed on the first sale of copra to generate the needed funds to develop the industry and eventually help improve the lives of the coconut farmers. Since then, a number of laws have been enacted to institute various levies on the coconut industry. Notable among the various funds that have been created out of the levies imposed are the coconut investment fund, the coconut consumer stabilization fund, the coconut industry development fund, the coconut industry stabilization fund and the coconut reserve fund.

The public or private nature of these funds is now the subject of a decades-long controversy. Private interests led by Mr. Eduardo Cojuangco claimed ownership of the fund by virtue of P.D. 1468 issued by Marcos which provided that “the intention being that said fund and disbursements thereof as herein authorized for the benefit of the coconut farmers shall be owned by them, in their own private capacities.” This became the basis for acquiring assets using the fund but which benefited only a few individuals close and influential to the powers that be, and not the larger coconut sector.

Two rulings since 2001, however, negated this claim. The Supreme Court categorically declared the coconut levy funds as prima facie public funds. The Sandiganbayan, on the other hand, ruled that 72 percent shares of the United Coconut Planters Bank (UCPB), 27 percent shares of the Coconut Industry Investment Fund (CIIF) Oil Mills and fourteen (14) holding companies, and CIIF-San Miguel Corporation are owned by the government in trust for all the coconut farmers. The rulings emphasized that the government should be able to mobilize such resources for what it was originally intended – the development of the industry and the farmers.

Small gains have been achieved thus far as reported in the Second Year Farmer Director’s Report (2004) since the turnover of the UCPB-CIIF Group of Companies to the Presidential Commission on Good Government (PCGG). These include: 1) access to essential information on the business segment of the industry; 2) upgrade of life insurance of coconut farmers from PhP5,000 to PhP10,000 and covering an additional 300,000 farmers, and 3) PhP700 million investment for the coconut farmers in micro-lending, direct copra marketing, integrated processing concepts and toll crushing agreement between the CIIF Oil Mills and the Liga ng Magniniyog.¹
Augmenting Incomes of the Coconut Farming Household: CBCS’ Response to the Sector’s Development Situation

The Cooperative Bank of Camarines Sur Inc. was established on February 18, 1994 by a federation of primary cooperatives in Camarines Sur, with the assistance from government agencies like the Cooperative Development Authority (CDA) and BSP. Capitalization at inception was PhP500,000. This capital has grown to PhP22.8 million as of December 2006, accumulated by 117 member-coops.

Clients vary from farmers, fishers, agrarian reform beneficiaries (ARBs), women, salaried employees, many of whom reside in upland coconut and rice farming areas. As any typical cooperative or rural bank, CBCS offers savings and time deposit; agricultural, commercial-industrial and providential loan. Its microfinance operations began only in 2000. But it took two years for the board to appreciate the bank’s microfinance business due to its seemingly complex way of operating it from social preparation to applications, disbursement, monitoring and internal control. In 2002, the bank separated its microfinance operations from the regular loan operations to facilitate management and control. This became logical as several institutions came to the bank to partner and offer its programs in microfinance. The National Livelihood Support Fund (NLSF), for instance, wanted to find a conduit for its programs. UCPB-CIF offered its financing programs for coconut farmers, even if the project was not confined to coconut production alone. The Department of Agriculture had livestock programs for rice and coco farmers.

Another product called Lends-1 or lending and savings in one was designed to cater to the market vendors since the coop bank was close to the marketplace. It is a three-month loan and borrowers are required to pay on a daily basis.

CBCS has two branches, one in Libmanan and the other in Pili. Mr. Angel Lobo, Jr. managed the bank for a long time until his retirement on June 19, 2007. Overseeing operations now are Mr. David Z. Canet as Board Chairman and Atty. Ildefonso P. Lizaso as General Manager. As of July 2007, it had a staff complement of 51, with 9 staff dedicated to the microfinance business.

CBCS’ Microfinance Operations

There was a hodgepodge of reasons that made CBCS engage in microfinance. For one, it was becoming popular here and abroad. The coop bank learned that microfinance entailed more frequent payments, translating into faster turnovers, and the huge possibility of having more income and better liquidity ("Sa microfinance, madali kung mabayaran..."
at puedeng ipautang pa uli. Napapaikot ang pera ng mabilis”). It was also a way for the bank to reach the poor who could not just access funds from the formal market especially from the cash-abundant big banks.

When the People’s Credit and Finance Corporation (PCFC) rented a space in the building of the coop bank from 1998 to 2002, CBCS was able to observe how the five staff of PCFC went about running a microfinance program from processing of loans to monitoring and maintaining of separate records and reports. The bank became all the more convinced that it could venture into such an activity. Opportunities abounded in terms of expanding its clientele base and sustaining its operations.

At first, CBCS used its own funds with the usual Grameen Bank-inspired scheme—small loans for the business, without collateral and weekly payment. Responding to the situation of the coconut sector was felt only when CBCS partnered with NLSF and UCPB-CIIF. Both institutions were looking for conduits to bring their credit funds to the poor communities. In 2004, microfinance funds were tapped from NLSF’s Livelihood Credit Assistance Program as long as the clients, whether ARB or non-ARB, belonged to an ARC. The facility used to be for ARBs in ARCs only. But to be able to reach more poor, the program accepted non-ARBs and the marginalized people who were residing in the area.

Key features of the NLSF program are fast access to credit, non-collateral, practice of credit discipline and savings by borrowers. Loanable amounts to end-clients must fall within the range of PhP5,000 to 50,000. NLSF lends to its conduits at nine percent per annum in the form of a credit line, and leaves to the MFI the on-lending rate to its clients as long as it is within market rate. Payments are made daily, weekly or monthly based on the cash flow of the borrower.

Following its mandate for coconut farmers, UCPB-CIIF also sought a partnership with CBCS in 2005 provided that borrower-beneficiaries were coconut farmers/workers or belonged to a family or household engaged in a coconut-based occupation. This was to be certified by the Philippine Coconut Authority (PCA). Applicants could be a coconut farmer or somebody who was residing in or related to a coconut farming household. The small business being applied for may or may not be coconut-related, the more prevalent of which was the sari-sari or variety store. It was important to UCPB-CIIF too that the prospective borrower had other sources of income that would allow her to pay her loan weekly or bi-monthly.

In general, the microfinance clients of CBCS are on their 11th cycle of borrowing, and borrow mostly for working capital for such projects as sari-sari-store, buy and sell of
crops and vegetables, backyard piggery, vending of other items like soap, household items, fish. Payment is on a weekly basis for a period of six months. Any change in policies is considered after ample discussions between the Micro-account Specialists and the Operations Manager.

**Schemes, Processes and Practices**

CBCS’s microfinance schemes for the past years of operations may be classified into three: 1) Regular Grameen Bank scheme; 2) Financing of intercropping in coconut lands; and 3) Virgin coconut oil production in Minadong Jol, Sagñay.

a. Regular Grameen Bank scheme

A Micro-Account Specialist (MAS) enters the barangay or community and makes a courtesy call to a barangay official to introduce the bank’s microfinance program. For the NLSF facility, CBCS is assisted by the local DAR in site and beneficiary selection. Community members are then called to a meeting and orientation. At the end of the meeting, the MAS comes up with a list of interested applicants who are subjected to a process of credit and background investigation to see who are qualified to be part of the program. At the minimum, the MAS considers if the applicant is engaged in a small business, mostly for buy and sell or trading of copra and other products, which s/he is able to manage. The staff also gathers feedback from group members for character assessment. The applicant must belong to an ARC for the NLSF program or to a coconut farming household for the UCPB-CIIF program. Those qualified undergo a seminar-training of eight to 12 hours to discuss policies and procedures for borrowing, member obligations and values formation especially on savings, loans and handling of money. Usually, a board member of the bank is invited to the seminar to give a pep talk or inspirational message.

The borrower-applicants undergo a verbal group recognition test (GRT) following the seminar. Documents for submission include the application form, 2x2-sized picture, barangay clearance, community tax certificate and marriage certificate.

It usually takes two weeks to a month to organize the groups and the center, and to make the first release.

A group is composed of five homogenous members (e.g., similar level of assets and income, usually living proximate to each other) who are granted credit all at
the same time. Three to four groups are then clustered into a center. About five centers are organized in a barangay.

Terms of the loan generally follow the Grameen Bank scheme. Loanable amount is PhP6,000 per borrower with interest rate of 19-20 percent per annum, payable in six months on weekly, fortnightly or monthly basis. The loan is granted without collateral, and the MFI relies on peer pressure. Occasionally though, the coop bank accepts assignment or voluntary surrender of movable properties like television and other appliances.

The loanable amount of PhP6,000 was earlier determined by CBCS based on the foreseen capacity of the client to amortize a loan in a period of six months. Projecting a daily income of around PhP500 for the poor borrower, CBCS was confident that the clients would be able to amortize an amount of PhP306.25, inclusive of savings and other charges, every week. The interest rate was largely within the creditor’s requirement. It may be less than the rate charged by its regular loan operations. But the regular amortizations allowed the bank a faster turnover of funds.

At first, loan releases to group members were made in batches following the original scheme of Grameen Bank. This was modified to lending to members simultaneously following issues within the group which prevented some of the more diligent members to borrow. The policy on group accountability was altered further in 2005 with the requirement of getting only one co-maker. Voluntary surrender of properties was also accepted.

The group remains useful for collective activities. Aside from the MAS and given the many accounts that he has to monitor, the Treasurer of the group collects the loan payments, savings and capital contribution during the meeting, and brings the said collections to the CBCS office in Naga. Sharing and discussions on their loan accounts as well as on community concerns follow.

Meeting and payments usually follow the weekly schedule but the frequency of meetings and visits of the MAS depend on the distance of the area where center meetings are to be held. The distant areas such as Tinambak and Caramuan are visited twice a month instead of the usual weekly schedule.
b. Financing of intercropping in coconut lands in Brgy. Bata, Pamplona

Financing of intercropping falls under the NLSF program. Partial to catering to ARBs missed by DAR, the borrowers of the NLSF include the coconut farmers residing in upland areas, even if the loan is used for production of palay and vegetables like bittermelon, beans and eggplant (ampalaya, sitaw at talong).

The loan amount is also PhP6,000 but in lieu of cash, the farmer-borrowers receive the loan in the form of seedlings, pesticides and other inputs. The MAS assigned to the area accompanies the leader to canvass and purchase items for the group. In consideration of the harvest time of these crops, CBCS adjusts the payment terms by allowing a grace period of two months, then requiring weekly payments up to the sixth month. DAR again has been helpful in monitoring and following up on these accounts.

These accounts were not spared by typhoon Reming. Following his experience in his previous employment, MAS Pedro suggested refinancing of the loan by releasing PhP14,000 to affected borrowers in February 2007, to be repaid weekly from other sources of income of the household.

c. The Virgin Coconut Oil Project with Minadong Jol Coconut Farmers and Land Reform Beneficiaries Association, Brgy Minadong Jol, Municipality of Sagñay

The Municipality of Sagñay has 19 barangays. From Naga City, it is a one-hour ride to the town of Tigaon by van or private vehicle, and another 20 to 30-minute ride by motorbike to reach the interior area.

The Minadong Jol (MJ) Association was established in 2002 and duly registered with the Department of Labor and Employment (DOLE) in 2005 to support the coconut farmers in pursuit of the agrarian reform program via compulsory acquisition. On July 1, 2004, 76 beneficiaries were awarded with 0.5-3 hectares of coconut land, and became obligated to pay some PhP51,000 in 50 years for the land. Only 60 members were interested in agrarian reform concerns and were active with the association. Support from the PCA came in the form of seedlings and water pumps intended to maximize the productivity of the lands distributed.

In December 2005, DAR sponsored a leadership training for the association, and invited speakers from PCA, Land Bank and the coop bank. The activity came up with possible projects for the group such as buy and sell, livestock and the virgin coconut oil.
Because of the abundant supply of copra and consequent low price at that time, the MJ association welcomed the idea of venturing into virgin coconut oil (VCO) production in light of the increasing demand for the product. The production process seemed so simple: 1,000 to 1,500 nuts per hectare were to be hauled daily by the members for processing through the shredder and extracting machines. The output would be fermented for 18-24 hours, and brought to a filter machine to produce clean gallons of oil. As much as 80 liters of coco oil may be produced and placed in 4 containers of 20 liters each. These were to be sold to an exclusive distributor already identified as Rhema Foundation, Inc. which in turn, would re-pack to sell to retailers and consumers.

Only 40 ARB beneficiaries—coco farmers headed by Mr. Jose Villano as Chairman—got involved with the virgin coco oil project. CBCS, on the other hand, decided to venture into this project since VCO was in demand, and stocks of coconut or copra were abundant. The project was also endorsed by the Municipal Agrarian Reform Officer of DAR, and supported by PCA and UCPB-CIIF. It was an opportunity as well for the coop bank to help poor coconut farmers, and to learn from the project whether it turned out to be successful or not.

A partnership between Rhema International Livelihood Foundation, Inc. (Ermita, Manila) and Minadong Jol Coconut Farmers Association was forged in October 2006. A resolution was executed between the board representatives of the two organizations, recognizing the business partnership to produce virgin coconut oil and other coconut-based organic products such as vinegar and cooking oil which will bear the brand name “Rhema Gold”. It was further stipulated that both organizations were to equally share in the project’s liabilities and gains (See Annex 2 for a copy of the joint resolution).

The association underwent an orientation with the coop bank, including the preparation of a project proposal. Training activities followed such as members’ awareness, institutional development and value formation sessions initiated by DAR, and technical training sponsored by PCA. MJ needed financing for the construction of a building, purchase of equipment and for working capital. It mobilized members in “bayanihan” fashion to construct the building in a 750-sq.meter donated land; arranged for the fabrication of the machines with Kolbi machineries accredited with the Department of Trade and Industry (DTI) in Naga.

Total financing requirement was PhP240,000. The first PhP120,000 was released in June 2006 to construct the building. The other PhP120,000 financed the acquisition of machines such as a twinhead cocomeat shredder, Kolbi cocojuice
milk extractor, Kolbi twin filter machine and containers, and the purchase of raw materials and labor. The 40 members each assumed a debt of PhP6,000 with an interest rate of 20 percent per annum, to be paid weekly for 6 months with a grace period of 2 months. A deed of assignment of the building and the equipment was executed in favor of the coop bank until the loan was fully paid. Pledges of appliances by members were nonetheless still accepted.

Earlier in May 2006, two resolutions were executed by MJ in line with the impending establishment of a credit facility with CBCS: 1) to deduct the monthly amortizations from the deposit account of the project; and 2) for the members involved in the project to individually assume the liability of paying the loan (including interest) in case the project failed (Refer to Annexes 3a and 3b for a copy of the members’ resolutions).

Production test occurred in August 2006. MJ was able to produce daily for three weeks. Test marketing with Rhema Foundation took place in September. The members met every Friday to check on the building, machines and overall production processes, and to discuss problems that came along the way.

Thirty liters were already being produced daily in November when production was suddenly affected by supertyphoon Reming. Nuts became unavailable, and it meant waiting for two years to be able to harvest again.

CBCS could not just demand payment since the coop had nothing to pay (“hindi naningil ang CBCS kasi walang masisingil…”). There was an attempt to bring the equipment to Quezon to make it useful but the coop bank, as one of the stakeholders of the project, did not approve of the idea since it would have been more difficult, if not impossible, to monitor the project.

In February 2007, Aquinas University Foundation (AUF) based in Pangasinan was in search of a producer of coconut oil when it spotted Minadong Jol. The officials of the Foundation got in touch with the association for the former to supply the nuts, and eventually buy the oil to be produced. A memorandum of agreement (MOA) was prepared between the Foundation and Minadong Jol. AUF also took the initiative to put up a water system and construct a storage room. The coop bank, in the meanwhile, was not updated of these developments. It immediately secured the assets assigned to it. In June, CBCS ‘threatened’ to file a case against MJ unless a new MOA was executed to include the bank in the arrangement.

As of 31 December 2006, CBCS reported a loan portfolio of PhP18.7 million for its microfinance operations benefiting 2,918 borrowers with an average loan amount of PhP6,412.32. Of the 2,918 clients, 1,516 (53 percent) belonged to coconut farming households, 1,200 (41 percent) came from the informal sector, and the measly balance of five percent or 158 were fishers. In terms of value, PhP11.04 million or 59 percent of PhP18.7 million was lent to farmers and fishers, while the remaining 41 percent was granted to the workers in the informal sector. Majority of the borrowers used the loan for their retail business.

Compared to previous years in 2004 and 2005, CBCS displayed an improved performance in 2006, particularly in terms of outreach. Loan portfolio grew by only 13 percent from 2004 to 2005, but soared by 70 percent in 2006. The exposure of microfinance loans to total portfolio of the bank was nine percent in 2004 and 2005, but higher at 15 percent in 2006.

Improvement in microfinance operations was sustained for the six-month period ending 06 June 2007. Microfinance loans totaled to PhP14.60 million, equivalent to an annualized revenue growth of 56 percent. Volume and value-wise, more than 60 percent of the portfolio was directed to the farmers.

All loans for the period in review were essentially unsecured since only group or peer pressure and movable items guaranteed the loans. Borrowers repaid loans anywhere between three to six months. Of total bank operations in 2006 and 2007, CBCS noted that microfinance contributed about 20 percent to gross revenues and 50 percent to net income. Charging of overhead expenses to the bank’s regular operations caused the apparently significant contribution of microfinance to bank’s net income. Major expenses charged against the microfinance operations were interest payments to external borrowings and compensation and benefits to the nine microfinance staff.

With the offering of microfinance, the women-clients of CBCS have become busy with income-generating activities outside of the household. Market days in the areas being served are now twice in a week as against once previously. Village incomes have improved as payments for barangay clearance have increased in number.
As in any lending business, CBCS is faced with collection problems. Some borrowers are of the opinion that the funds borrowed from NLSF and UCPB-CIIF should have been doled out since it is people’s money. NLSF as a government agency is perceived to be using people’s money while UCPB is lending out the coco levy fund. To ensure repayment, CBCS explains that money is being lent to be repaid, and to be used for capital to accumulate savings and/or expand the business (“ang perang inutang ay dapat bayaran, at ipuhunan para palaguin”).

The bank’s biggest headache thus far is the failed VCO project owing to the size of the loan and unfeasibility of individual members to pay the loan. It was hence providential that the bank came to know about the new dealings of MJ Association with AUF during one of the visits of the assigned Micro-account Specialist, enabling the bank to insist on having new negotiations with the two parties.

Pursuing legal action on the delinquent accounts was quite expensive given the bank’s limited resources. It would rather impose appropriate sanctions on the concerned borrowers with appropriate backing from the barangay.

**What Works and Doesn’t Work for the Coconut Sector**

CBCS had to learn the hard way that there are inherent problems in offering microfinance to coconut farmers. Ms. Emilda del Rosario, Loan Officer for the Micro-
lending Unit, may have expressed this in exasperation, “Hindi pala puede crops sa micro; di makabayad sa amortization pag inabot ng calamity (Crop financing does not seem feasible through micro-lending; the farmer is unable to pay his amortization, especially when hit by a calamity).”

The coop bank’s experience with the VCO project with Minadong Jol Association has caused even more stress for the staff members of the Micro-lending Unit. Obligating the 40 members involved in the project to each pay on a regular basis a total amount of PhP6,000 which they did not actually receive (notwithstanding the signing of a resolution as back-up) was doomed from the start. Not having received the money themselves, and more so, not having used it for their own business or consumption could not compel everyone to pay up his or her share of the loan in this group endeavor.

Managing the VCO project was already difficult in itself since it was something new and untried for the association. When it eventually failed for reasons beyond its control, the more reason there was for the members not to pay up.

The intricacies of agricultural production have been cited earlier. And for an area like the Bicol Region where typhoons and other natural disasters hit hard, the coconut farmer often suffers from crop damages and consequent loss of earnings. He needs to have other sources of income such as employment of other family members or a business that would produce regular income, to be able to secure enough cash to spend for household needs, including education and health, and payment of debt. CBCS, for its part, must be open to getting repaid in various modes from the usual weekly and monthly payments to lump sum. It has, in fact, already bent its rules by offering grace periods and refinancing for projects which have been destroyed by the typhoons.

Given the problems in agriculture lending, CBCS understands that close monitoring of their agri-microfinance accounts needs to be carried out to be able to mitigate the financial risks inherent in agriculture.

Despite new opportunities coming from microfinance, the coconut farmers feel that they are still hard up, and any assistance from the government and private sector from provision of funds, training, technologies to social services is welcome.

Making Microfinance Work for the Coconut Farmer

Gathering from the experiences of the coop bank, the following schemes or practices are recommended in providing micro-financing to the coconut farmer:
1) Adopt a two-month grace period for repayment on crop loans to coincide with harvest time. It is particularly helpful for both the coconut farmer-borrower and the lender to await payment until after harvest which is one and a half months for coconut or copra, and two months for vegetables and other crops.

2) Consider financing of working capital for intercropping since it not only maximizes the coconut land, but also provides additional income for the coconut farmer. There are different gestation periods for different crops. The variety of crops may address both the productive or income and consumptive needs of a coconut farming household.

Under mono-cropping of coconut too, the farm is considered underutilized. A proper combination of coconut and intercrops may generate a maximum yield and net profit. The incentive for intercropping is truly economic, since this system not only provides higher gross return per hectare but also plays an important role as an insurance risk against total crop loss. Production cost of coconuts and maintenance of a coconut-based farming system could be significantly reduced when a high yield level is achieved, depending on the local environmental conditions and application of available farming technologies.

3) The coconut tree has many potential. CBCS must go beyond financing of buy and sell of items. Rather, it must consider financing other coconut-related projects such as making of soap, walis tingting (broomstick), vases, charcoal, benches and tables which require small amounts of capital for the individual borrower. Cooperatives or associations of coconut farmers may embark on projects which need bigger investments such as the production of vinegar or wine from coconut water, nets and mattresses from fiber, coco peat from coir dust require bigger investments. The groups, however, must be prepared in terms of capabilities in managing the project as well as in facing externalities within or beyond their control.

To take advantage of these production possibilities or diversification, assistance in skills or technical training as well as marketing is needed by the farmers who have limited resources. Assistance may come either from the government or private sector. But government intervention is especially crucial in the case of marketing and infrastructure services to ensure that farmers are directly linked to prospective buyers and are able to fetch a good price for their crops or agriculture-based product.
Another defining development on the part of the government could be the final resolution of the coco levy issue. Access to the fund while structural mechanisms are being put in place will mean the rehabilitation of the industry at the soonest possible time, e.g., planting of new trees and rehabilitation of coconut lands affected by the super typhoons, funding of guarantee schemes for cases of calamities, skills training and upgrading for coconut-related projects, infrastructure development like roads, bridges and post-harvest facilities, and marketing assistance.

Endnotes:

1 This concerned the delivery of a volume of copra by the farmers’ group to be crushed in Arimbay (Bicol) oil mill of LEGOIL. The purpose was to earn profits to later organize farmers’ cooperatives in Bicol for direct copra marketing.

2 ARBs in Camarines Sur are 90 percent coconut farmers.
Camarines Norte is one of the six provinces that comprise the Bicol region. Located in the northern coast of the Bicol peninsula, it covers a total land area of 2,200 square kilometers. The province is bounded on the north by the Philippine Sea, on the east by San Miguel Bay, on the west by Lamon Bay, and on the south by Quezon and Camarines Sur provinces.

As a largely agricultural province, its main products include pineapple, coconut, cassava and pili nut. Rice farming is the main source of income for some 13,000 farmers, while around 24,000 depend on coconut farming. Fishing is another major income generating activity in Camarines Norte. Nine of its twelve municipalities, or a total of 84 barangays, lie along the Lamon and San Miguel Bays.
Lying on the southeastern coast of the province is the municipality of Mercedes, one of the two major fishing ports in Camarines Norte. It is a third class municipality composed of 26 barangays. It has a total land area of 15,510 hectares, including four island barangays. As of the latest count by the municipal government, Mercedes has a total population of 42,025 or 7,792 households with the majority directly engaged in fishing or fish-related activities such as fish processing and retailing.

Mercedes is accessible by land transportation. After a six-hour bus travel from Manila to Daet, the town proper or poblacion, where the municipal fish port is located, can be reached by tricycle or jeep in less than an hour. The trip going to the island barangays from the municipal fish port lasts for 30-40 minutes.

But underlying the bucolic landscape of its fields in the mainland and the idyllic shores of its islands is the acute poverty that the people of Mercedes experience. In 2005, poverty incidence in the town was recorded at 49 percent, the second highest in the whole province. With fishing as the backbone economy of the municipality, the fisherfolk and their families suffer the bleakest of poverty.

**Like Fish Out of Water**

The Philippines is an archipelago with an extensive coastline of more than 17,000 kilometers and waters covering 220 million hectares. With 7,100 islands, 65 out of 81 provinces with access to the sea, and over 1,000 municipalities located in coastal areas, fishing is one of the dominant economic activities in the country. In 2004, the fisheries sector employed 1.4 million persons or 4.3 percent of the total employment in the Philippines (Tangthirasunan 2007). Moreover, according to the Asian Development Bank, the abundance and affordability of fish makes it account for 75 percent of total animal protein intake for Filipinos. Ironically, the fisherfolk sector is among the segments of society that is increasingly underserved and marginalized.

Despite the significance of the fisheries sector to the national economy (4.3 percent of GDP at constant prices, BFAR 2005) and food security, thousands of small-scale, municipal fishers earn average incomes of PhP3,000 a month, way below the poverty threshold of PhP5,885 for a family of five in 2006 set by the National Statistical Coordination Board (NSCB). Moreover, by BFAR definition, municipal fishers operate fishing boats of less than three (3) gross tons only or use gears not requiring the use of boats. Citing Rivera-Guieb et al (2002), the Network of Aquaculture Centers in Asia-Pacific or NACA (2004) reported that in terms of income class, 19 coastal provinces belong to the 24 poorest provinces. In terms of minimum basic needs ranking, 18 of the poorest 20 provinces in the Philippines are coastal provinces.
In 2003, poverty incidence was highest among fisheries workers (50.8%) compared to farmers (46.6%) and total poverty (33%). Among regions, fishers in the Autonomous Region of Muslim Mindanao (ARMM), Caraga and Bicol, where Camarines Norte belongs, earn the lowest incomes and thus experience the severest of poverty. Moreover, regions with large shares of fisher population also have high rates of fisheries poverty (Tangthirasunan 2007). The situation in particular localities, however, may be far more serious than what these macro-figures suggest, especially when the decline in stocks due to over-fishing and resource degradation is factored in.

**Laws and Policies Affecting the Fishers**

There are three pertinent laws that have profound impacts on the socio-economic development of the fisheries sector in general (NACA 2004):

- **Local Government Code of 1991**
  Known as RA 7160, this law devolves the provision of basic services to local government units (LGU) including the administration and development of aquatic resources. Waters within the fifteen-kilometer distance from the coastline are subsumed under the territory of the local government, which is authorized to pass resolutions and enact ordinances that would strengthen implementation of national laws supporting fisheries management. While this was seen to have a positive impact on the fishers at the local level, this act often dislodges efforts by national agencies concerned with marine resource development.

- **Agriculture and Fisheries Modernization Act of 1997**
  This act, rendered effective in 1998, provides an overall framework for the industrialization of the agriculture and fisheries sectors in the country by transforming them from a ‘resource-based’ to ‘technology-based’ industries. It also ensures “equitable access to assets, resources and services, and promoting higher value crops, value-added processing, agri-business activities, and agro-industrialization by enhancing the profits and incomes in the agriculture and fisheries sector, particularly small-scale farmers and fishers.” Moreover, Chapter 3 of the said act particularly identifies access to credit by the agricultural sectors including the fisherfolk as instrumental in “alleviating poverty and promoting growth in the countryside.”

- **Philippine Fisheries Code of 1998**
  Otherwise known as RA 8550, the Fisheries Code is a comprehensive codification of existing fisheries laws. It clarifies issues pertaining to the extent of LGU
jurisdiction and contains new provisions including the institutionalization of community participation in all levels of Fisheries and Aquatic Resources Management Councils (FARMC). It also delineates the 15-kilometer municipal waters and coastal resources, with the seven-kilometer zone prioritized for municipal and artisanal fisherfolk. But it still allows the local government to permit small to medium scale commercial fishing within the limit. Unlike AFMA which prioritizes industrialization and maximization of marine resources, the code highlights the development, management and conservation of the aquatic resources to achieve food security. Furthermore, support mechanisms for municipal fisherfolks as enumerated in Section 24 include credit and other services such as additional or supplementary livelihood.

**Municipality of Mercedes in Camarines Norte**

In Mercedes, the situation of families dependent on fishing illustrates the plight of the fishers all over the country. Below are stories of three women and their families representing the majority of people in Mercedes relying on fishing (or fish-related activities) to survive.

Laila Mañago, 45, is wife to a fisherman and mother to three children. Because her husband’s inadequate fishing gears hardly catch a profitable volume of fish (the value of which can go as low as PhP40 a day), Laila opted to augment their income by vending vegetables and *ulam* (viand) in their neighborhood, and by selling barbecue and *isaw* (chicken intestines) in the afternoon. On lucky days, she earns at most PhP140 in a day. Yet this additional profit barely covers their food and fuel expenses as well as her children’s *baon* (allowance) in school. Fortunately, the renovation of their house was funded by a foundation, which also supports one of her children’s schooling. Her alternative sources of income have proved helpful since her husband was engaged in construction work which limited his time for fishing.

Jennifer Palero, 33, has four young children. When she gave birth to her last child, Jennifer stopped selling *tinapa* (smoked fish), leaving her husband Ramiel to be the lone breadwinner with the responsibility of seeking money to spend for their daily needs. Unfortunately, he does not have his own boat, and only hitches onto boats of other fishermen in their community. Sometimes, he just stays on shallow waters spearing any edible creature that crosses his way that he can sell or serve on their dining table. Whatever amount of money he brings home is nonetheless adequate to support their very basic expenses primarily food. In some instances, Jennifer said, PhP100 a day can even be more than enough.
The family of Norma Virginia, 54, on the other hand, lives a relatively more comfortable life. Seeing that fishing has become less and less profitable, her husband engaged in making *kawil* (fishhooks) instead. Delivered and sold in Manila, *kawil* making gives them an average of PhP1,000 a month. Aside from this, the family is also into fish smoking (*pagtitinapa*). They rent facilities in a nearby *tapahan*, and her children help sell the *tinapa*. A *kaing* of *tinapa* (big basket of smoked fish) provides them a minimum of PhP400 profit, and goes higher when fish catch in Mercedes gets low and people have nothing affordable to eat. With some of their children working in Manila, they were able to construct a stronger, concrete house.

On the surface, the stories of these women may suggest fairly manageable lives. The truth, however, is that they have learned to get used to and live with very meager incomes.

The husbands of Laila, Jennifer and Norma and the rest of the small fishers of Mercedes share the bounty of the San Miguel Bay area with the people of the neighboring town of Basud. About 80 percent of the households in the island *barangays* of Mercedes—Quinapaguian, Caringo and Apuao—are directly engaged in fishing activities (Solar and Tabalon 2000). Although no available data shows the total number or the percentage of the population engaged in fishing, mere observation of the town and the fact that most of its *barangays* lie along the coasts allow one to surmise that Mercedes is the hub of the fishing industry of Camarines Norte. Even before the sun rises, the municipal fish port transforms into a busy, noisy market where all fish catch both from small-scale and commercial fishers are traded.

Poverty continues to cast a shadow over the lives of these small fishers. A survey conducted by the Institute of Social Order (ISO) in 2000 covering 15 percent of the households in the three island communities pegged the monthly family income at PhP4,663.00 (Solar and Tabalon). Key informants for this study, however, reported that less fortunate fishing households make do with even less (average of PhP3,000). Quitangon (2003) listed several interrelated factors that contribute to the severe poverty in Mercedes, particularly on the lives of the fisherfolk:

- diminishing fish catch due to over-extraction and degradation of marine resources;
- lack of alternative and credit opportunities that could supplement their income from fishing;
- poor public infrastructures and social services; and
- limited human resource endowment due to poor educational and training facilities.
Like all other fishermen in the country, the survival of small fishers in Mercedes is largely dictated by the prevailing weather. As seasons change, their daily incomes fluctuate correspondingly. When the weather is favorable, fishers get an abundant catch and hence, more food gets on the table and more money can be spent for their other needs. This usually occurs from March to July when the sea is calm and the wind is tranquil. In these months, various kinds of fish abound in the sea and near the shores, and the fishers earn more than enough. However, when occasional showers and thunderstorms come in usually by August, small fishers cannot go out fishing as waves begin to get stronger and the water becomes murky. Up until February, life becomes difficult especially for those who are not able to save for their expenses.

The income of fisherfolk is also determined by the fishing techniques and methods employed collectively known as *pamalakaya*. Majority of the small fishers in Mercedes still use traditional and usually inadequate techniques and fishing gears such as *pangke* (gill net), *baklad* (fish corral), *bobo* (fish trap), *pana* (spear), *banwit* (hook and line) and others. Thus, they can only catch what their gears can harvest. They also are only allowed to fish within three miles (five kilometers) from the coastlines of the marine coastal waters of Mercedes. Further hurting their small capital and budget is the high cost of gasoline used for their motorboats. Those who cannot afford a motorized boat use smaller paddled ones called *paraw*.

The encroachment of illegal commercial fishing vessels within the 15-kilometer municipal waters injures the small fishers the most. While the Philippine Fisheries Code of 1998 regulates such intrusion, the problem remains rampant. Using bigger nets locally known as *buli-buli* and *Norway*, and chemicals like sodium cyanide, these commercial fishers, allegedly from neighboring towns and provinces, further deplete the already scarce supply of fish in the fishing grounds of Mercedes. The competition gets stiffer when these intruders use their influence to circumvent the fishery law and evade penalties and cases with the protection from politicians and businessmen (Quitangon 2003). In such scenario, the poor fishers stand helpless and are further pushed to destitution.

The municipal waters of Mercedes are undergoing the process of rehabilitation. With assistance from non-government organizations, certain portions of the bay have been converted into marine sanctuaries. Communities are very much involved in the protection of the area, actively helping their *Bantay Dagat* (sea patrol) operations. While the recovery of the resources will take time to complete and to become productive again, small fishers have to make do with what they have with their limited incomes, even if it implies living like fish out of the water catching their breaths.
Teaching Fishers How to Fish: IIMC’s Response to the Sector’s Development Situation

The cases of Laila, Jennifer and Norma, and the rest of the fisherfolk living in poverty, prompted the Inter-Island Management Council, a group of about 600 small fishermen and their wives in Mercedes, to come up with livelihood programs that would somehow allow them to keep their lives afloat amidst the social tides perennially drowning them. One of these, which this case study presents, was its microfinance project called Small Enterprise Economic Development Project or SEED Project. But prior to this project, IIMC ventured into similar livelihood programs which laid the foundation for the SEED Project.

Inter-Island Management Council

Formed in February 2001, the Inter-Island Management Council Inc. (IIMC) is a people’s organization composed of small fishers of Mercedes, Camarines Norte. It advocates the rehabilitation, conservation and enhancement of coastal resources and pursues partnerships with the local government unit and other sectors to improve the lives of small fishers. With the assistance of ISO, IIMC represents the interests of small fishers particularly of the three-island barangays namely Apuao, Quinapaguan and Caringo. From an initial group of 60 fishers, it has grown into an organization with over 600 members from ten barangays.

In partnership with ISO under its Camarines Norte Institution Building Program (CNIBP), IIMC implements programs following the principles of community-based coastal resource management (CBCRM). CBCRM is a “comprehensive strategy that seeks to address the issues of open-access and other environmental issues affecting the coastal environment through the active participation of coastal communities politically and economically empowered” (Quitangon 2003). This strategy mainly emphasizes the active involvement of small, municipal fishers in the management of their common resources.

All the efforts incorporated in CBCRM (see Table 2) are directed towards sustainable development. Of late, IIMC has been successful in collaborating with key stakeholders such as the local government of Mercedes and NGOs like the ISO as well as in mobilizing the organization in addressing issues concerning their marine resources through their patrol operations called Bantay Dagat.

IIMC expressed belief that resource protection and management through the collective effort of the fishers was imperative in addressing the poverty besetting the community.
Thus, IIMC focused on the livelihood component of the CBCRM after strengthening the organization, establishing a marine sanctuary and ensuring strict implementation of the municipal waters law and ordinances. This was not to regard, however, the livelihood component of the CBCRM as the least priority. In fact, alternative livelihood was deemed crucial to encourage fishers to explore other supplementary sources of income to reduce their dependence on the overused marine resources.

Table 2. Components of the Community-based Coastal Resource Management (CBRM)

- Community Organizing
- Capability Building
- Resource Conservation
- Advocacy and Networking
- Livelihood Development

First Attempt: The Loan Revolving Fund

While not entirely a project of IIMC, the micro-revolving or loan revolving fund (LRF) project was a significant experience for the organization. Aiming to address the poverty of small fishers, the ISO and the members of the Sangguniang Barangay of Quinapaguian and Caringo conceptualized the project in 2001. With the assistance and guidance of the ISO program staff and volunteer seminarians, the project started with a seed capital of PhP25,000 (from ISO) to be divided equally between the two barangays. Each barangay also provided monetary counterparts. IIMC supervised the project in Barangay Apuao when it joined in 2002. The amounts lent were to be used for pig raising and seaweeds farming (see Table 3).

Usual problems of delinquent borrowers and lenient implementation and monitoring made the project last for only three cycles. While the first cycle ran smoothly with almost 100 percent repayment rate, some borrowers in the subsequent cycles were unable to pay their loans primarily because their enterprises suffered losses. An unknown virus that infected the seaweeds farms, for example, resulted in low production and harvest. Partner NGOs also noted the poor management of financial records, cash flows, and remittance documentation as related causes.
Table 3. Terms and Conditions of the Revolving Fund Project

<table>
<thead>
<tr>
<th>Loan Terms</th>
<th>Brgy. Quinapaguian</th>
<th>Brgy. Caringo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of beneficiaries</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Amount of loan</td>
<td>PhP2,500</td>
<td>PhP2,500</td>
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<tr>
<td>Interest rate</td>
<td>2% p.m.</td>
<td>2% p.m.</td>
</tr>
<tr>
<td>Terms of payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seaweeds farming</td>
<td>Quarterly</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Pig raising</td>
<td>Weekly</td>
<td>Weekly</td>
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<tr>
<td>Loan duration</td>
<td></td>
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<tr>
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<td>3 months</td>
<td>3 months</td>
</tr>
<tr>
<td>Pig raising</td>
<td>5 months</td>
<td>5 months</td>
</tr>
</tbody>
</table>

Some interviewees in one barangay referred to pamumulitika (politicking) as the major reason for the project’s failure. They felt that the idea of barangay officials carrying out the project made it conducive for palakasan or favoritism. People close to or friends with members of the Sangguniang Barangay went through the screening process easily and availed of the loans ahead of those who were on the waiting list.

Stepping-up: Support to Alternative Livelihood Program

In 2004, ISO entered into a partnership with IIMC. The program called Support to Alternative Livelihood Program (SALP) would help augment the income of its beneficiaries given the seasonal income from fishing and limited catch due to the establishment of marine sanctuaries. With a credit fund granted by the German Doctors, Inc. amounting to PhP1 million, the alternative livelihood projects offered were swine breeding (which was later replaced by hog fattening), cattle dispersal, fish drying and grouper (lapu-lapu) culture. These livelihood projects were complemented with technical training and capacity building efforts through modules and publications to further develop the skills of the program beneficiaries.

Financial assistance for cattle dispersal and swine breeding/hog fattening is paid in lump sum. Loans for fish drying are paid monthly for six months. IIMC, ISO and the beneficiaries share the profits from the grouper culture (see Table 4).

Thus far, only the hog fattening and cattle dispersal projects are doing well. As of last project cycle (July 2007), 21 members have benefited from cattle dispersal, and 41 from hog fattening. Fish drying was stopped in 2006 due to low supply of fish and low demand for processed fish. Grouper culture, on the other hand, is on its third cycle of operation, still recovering its losses from early harvests, and there are no more new beneficiaries. Its 39 beneficiaries during the first cycle earned PhP700 each. All profits that the third cycle of the grouper culture project generates are to be given to ISO.
### Table 4. Terms and Conditions of the Support to Alternative Livelihood Project

<table>
<thead>
<tr>
<th>Projects</th>
<th>Swine breeding/ hog fattening</th>
<th>Cattle dispersal</th>
<th>Grouper culture/ fish pond</th>
<th>Fish drying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount</td>
<td>For the swine breeding, PhP2,000 for piglet, and PhP5,000 for feeds. PhP5,000 for the hog fattening, and increased to PhP7,000 as of August 2007</td>
<td>Mother cow costing PhP8,000-13,000</td>
<td>(Lapu-lapu fingerlings (15,000-18,000 pieces), fishpond worth PhP40,000+)</td>
<td>PhP6,000-PhP9,000</td>
</tr>
<tr>
<td>Interest rate</td>
<td>12% p.a.</td>
<td>20% p.a. if age of cow purchased is below 1½ years; 30% p.a. if 1½ years and above. From second batch onwards, 30% p.a.</td>
<td>n.a.</td>
<td>5% p.a.</td>
</tr>
<tr>
<td>Period of payment</td>
<td>Swine breeding: 1 year Hog fattening: 5 months</td>
<td>1 to 1½ years</td>
<td>1 year</td>
<td>6 months</td>
</tr>
<tr>
<td>Mode of payment</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>(Net income is shared)</td>
<td>Monthly</td>
</tr>
<tr>
<td>Security</td>
<td>Peer pressure or “barangay ban” i.e. if at least one borrower in one barangay has a past due account, no loan will be released to other borrowers living in the same barangay. No grace period. Penalty: 1% of balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saving scheme/s</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Towards Microfinance: Small Enterprise Economic Development (SEED) Project

The LRF and SALP were still insufficient to support the small income generating projects that would supplement the incomes of small fishers. As much as ISO and IIMC wanted to meet the high demand of their members for alternative livelihood programs, funds were limited and the inability to provide counterparts like pigpens and labor disqualified them for the projects.

Aside from managerial difficulties (lenient monitoring of loans, remaining collectibles) and other uncontrollable factors (weather disturbances, logistical constraints), there were also some attitudinal problems among fishers that undermined their creditworthiness. Foremost among them was their tendency to be “one-day millionaires.” After a hefty catch, fishers usually spent their earnings on drinking sprees. Without enough money saved, they were forced to borrow from usurious moneylenders when the proverbial rainy day came.

The increasing popularity and noted success of microfinance in other poor sectors motivated ISO and IIMC to implement such lending approach for the fishers of Mercedes. It was hoped that it would also enhance their values and attitudes by allowing the members to save. As their projects would progress, the fishers would also be prevented from resorting to illegal fishing methods. In the process, as with the other existing livelihood programs, there would be less pressure on the easily depleted resources of the waters of Mercedes. Moreover, fish wardens active in patrolling operations have also reduced their time for fishing which implied reduced income for their families. To compensate for this, IIMC and ISO started offering a credit delivery mechanism with low interest and other manageable loan terms. In July of 2007, IIMC and ISO launched a microfinance project for their fisher members called the Small Enterprise Economic Development or SEED Project.

The SEED Project replaced the failed fish drying project of the SALP. The money extended to members as credit, totaling to almost PhP100,000, came from the receivables of the fish drying project. The mayor of Mercedes added PhP40,000 as contribution of the local government for agricultural development in the municipality.

The SEED Project targeted IIMC’s more than 500 members in the ten barangays of Mercedes. On its initial month of operation and given the relatively small portfolio, the SEED Project had 41 borrowers from eight barangays. The number of borrowers was expected to increase in the next cycles as repayments from the first batch would be
plowed back to the micro-credit operations. As a safeguard measure, IIMC and ISO initially approved the loans of those with existing enterprises to somehow ensure that loans would be used for tested projects and hence, guarantee repayment.

The microfinance project has two main components: credit and savings. Although relatively small amounts are loaned, IIMC hopes that the loans it extends can help mobilize fishers with no assets to engage in self-employment and income generating activities. IIMC and ISO looks into several factors to determine the amount to be loaned:

- **Cash flow.** As earlier stated, the borrower is expected to have an existing enterprise or other sources of income to pay the loan as well as to provide the counterpart (e.g. borrowers for fish smoking must have trays and other fish smoking paraphernalia).
- **Production/project requirement.** Local community organizers (LCO) and the livelihood committee examines the simple budgetary requirements submitted by the borrower and deletes items that can be shouldered by the borrower.
- **Character of the client.** The LCOs and livelihood committee conduct background investigation through interviews, inspecting house assets, and looking at the credit history, if any, to see if the potential borrower is trustworthy and responsible.
- **Greater outreach.** IIMC rationalizes that even if the loan amounts are small, the project can at least benefit more members compared to providing huge loans which yield very small outreach.

The loan amount ranges from PhP1,000 to PhP5,000 carrying an interest rate of 1.5 percent per month, and a service charge of PhP25. Most borrowers interviewed cited the low interest rate as their main reason for applying for loans especially since it was way lower than the rates imposed by the informal lenders as well as other MFIs based in Daet, the province’s capital. Norma shared, “Sa microfinance ng IIMC, mababa ang patong kumpara sa 5-6 (a usurious money-lending scheme) na araw-araw ang singil (In microfinance, the interest is low compared to 5-6 where you have to pay everyday).” As another attraction and to discourage delinquency, borrowers in good standing are entitled to a rebate of 2.5 percent of interest. The total interest amount collected is to be shared by the ISO and IIMC on a 50/50 basis.

The loans are primarily for additional working capital for both fish and non-fish purposes (see Table 5). For example, Norma borrowed PhP5,000 for their fish smoking business, while Laila used her PhP2,000 loan to expand her small food retailing business in Quinapaguan Island. The purchase of a small non-motorized banca or paraw, where Jennifer and her husband would be spending her loan of PhP3,000, was so far the only
Table 5. Types and Purposes of Loan for the SEED Project

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>Purpose of loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish</td>
<td>• Working capital</td>
</tr>
<tr>
<td></td>
<td>(fish smoking, Styrofoam renting for fish delivery, fresh fish vending)</td>
</tr>
<tr>
<td></td>
<td>• Fixed capital</td>
</tr>
<tr>
<td></td>
<td>(purchase of non-motorized banca or paraw)</td>
</tr>
<tr>
<td>Non-fish</td>
<td>• Working capital</td>
</tr>
<tr>
<td></td>
<td>(sari-sari store, rice and feeds retailing, piggery/hog fattening,</td>
</tr>
<tr>
<td></td>
<td>generic medicine vending, cheap accessories vending, buy and sell, rice vending)</td>
</tr>
</tbody>
</table>

A loan is to be paid within three to five months depending on the nature of the project and on what the borrower thinks is more convenient. Payments could be done daily, weekly, fortnightly (15th-30th) or monthly. The frequency of payment is determined by the nature of the project and the borrower’s cash flow. For example, if a borrower’s particular project generates profit regularly (such as sari-sari store) or if there are other supplementary sources of income, then he/she can avail of a higher loan and make payments at shorter intervals.

Although the SEED Project utilizes the individual lending approach, peer pressure through what IIMC calls a “barangay ban” takes the place of the collateral. If a borrower from one barangay, for example, fails to pay on time, no loans would be disbursed in the next release for the members residing in the same barangay. Furthermore, since fishers have no asset to dispose of, an Acknowledgement of Debt (Annex 4) instead holds delinquent borrowers responsible for their loans.

For borrowers to learn to save, they have to allot PhP10 per payment schedule, and an initial PhP25-savings is deducted upfront from the loan. Any savings generated can only be withdrawn after full payment of the loan. IIMC and ISO, however, encourage their members to continue saving in the microfinance project even after repayment. Any amount saved also serves as hold-out for payment.
Performance of the Microfinance Operations of IIMC as of 31 December 2007

The SEED Project started in July 2007 with PhP170,000 spread to 41 borrowers from 8 barangays, yielding an average of PhP4,390.24 per client. Of the 41 initial clients, 31 used their loan for working capital, mostly for non-fish enterprises (sari-sari store, vending, hog fattening, retailing), and the rest bought paraw (non-motorized banca) which is a fixed capital. Seventy-one (71) percent borrowed the maximum loanable amount of PhP5,000. More than half (69 percent) of the borrowers are women, many of whom are wives of fishermen or of men engaged in fish-related activities.

As of 31 December 2007, the SEED project has released loans to three batches of borrowers. Loan portfolio has reached PhP352,500 serving 79 clients, resulting in an average loan size of PhP4,462.03 per client. The first batch of 41 borrowers, whose loan amortizations ended in December, recorded a satisfactory repayment rate of about 71 percent, with nine of them having fully paid their loans (see Table 6).

The first few months of the microfinance project surfaced several challenges which were somehow expected by IIMC and ISO and may explain for delays in repayment. First, livelihood activities in island barangays such as sari-sari stores and food vending were not as lucrative as those in mainland Mercedes. This was primarily attributed to the limited number and budget of customers in the islands. Second, seasonal income, natural calamities (e.g. typhoons) and the need to spend for the immediate needs of the families deterred the borrowers from paying on time.

<table>
<thead>
<tr>
<th>Account / Ratio</th>
<th>FY 2007 (as of 31 December 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Portfolio (PhP)</td>
<td>352,500.00</td>
</tr>
<tr>
<td>No. of Borrowers</td>
<td>79</td>
</tr>
<tr>
<td>Average Amount Per Client (PhP)</td>
<td>4,462.03</td>
</tr>
<tr>
<td>Repayment Rate (first batch of 41 borrowers only)</td>
<td>70.69%</td>
</tr>
</tbody>
</table>
Nonetheless, clients like Norma, Jennifer and Laila felt empowered having chosen what project and repayment arrangement would fit them. Moreover, officers of IIMC, particularly its Finance Officer, Ms. Mildred Loyola, considered the fact that the organization left the decision to their clients as an indication of empowerment, especially on the part of the wives of fishermen. “Sila mismo ang pumipili ng projects na sa tingin nila ay angkop sa kakayahan at kakayanan nila (They are the ones choosing the projects that they think will suit their skills and capacities).”

ISO’s community organizer in Mercedes, Ferdinand Cruz, believes that while it is still early to assess the success of the SEED Project in terms of alleviating poverty and promoting empowerment among its borrowers, the schemes utilized in the SEED project (small interest, frequent payment, savings, etc.) may be the more appropriate means to help the poor fishers cope with the dwindling resources of the seas and their poverty. He further cites the savings as an important value that the microfinance has promoted. When operations are sustained smoothly and the quality of loan portfolio improves, IIMC and ISO plan to provide loans for members who wish to start a new business.

What Works and Does Not Work for the Fishery Sector

With the SEED project being on its maiden operations, it may still be premature to deduce from the experiences of IIMC and ISO microfinance schemes and practices that will work for the sector. Nevertheless, the SEED Project lends some important insights on how to make microfinance feasible given the intricacies of the fishers’ context.

First, the strategy of IIMC and ISO of extending credit to those with existing alternative and external sources of income proves practical in ensuring repayment of loans, even if such approach veers away, to a certain extent, from the objective of microfinance of helping the poorest of the poor. The relatively small loan amount, low interest and collateral-free loan also demonstrate the ability of microfinance to turn away the fishers from borrowing from informal moneylenders. These arrangements, however, are reliant on the availability of funds.

Moreover, it helps that members personally know each other, as in the case of IIMC. Such dynamics within an organization make peer pressure an effective security measure in lieu of collateral. This is also consistent with the importance of ascertaining the borrower’s character in microfinance. Other MFIs with natures different from that of a people’s organization might need to utilize other ways of undertaking background investigation to assess the borrower’s creditworthiness.
The inherent limitations of microfinance, foremost of which is the relatively small loan size, imply that it can only finance small projects to supplement the fishers’ main source of income. Microfinance cannot immediately and completely divert fishers from depending on fishing alone, since it has been their livelihood for most of their lives. Moreover, while the SALP projects of IIMC employ microfinance schemes and processes and can in fact support medium-scale investment needs like fish culture which can replace fishing, lack of skills and competence both of the borrowers and lending organization hinder such projects from prospering. The case of IIMC’s microfinance project nevertheless shows that small, alternative income-generating projects could be applied to the fishers, although there are small businesses, e.g. food retailing, that are not as lucrative as expected especially if located in low-density areas.

In terms of operations, the remoteness of some communities poses a challenge in the delivery and disbursement of loans to the borrowers as it results in additional transaction cost. The PhP25-service charge deducted upfront from the loan nonetheless allows IIMC to cover transportation expenses.

Since microfinance involves financial matters, it requires careful and strict monitoring. In the case of IIMC, its officers admitted having limited skills and hence becoming too dependent on the ISO staff for the implementation and management not only of the microfinance project but of all the other livelihood projects. Nevertheless, as their work collaboration progress, it is hoped that IIMC would be able to stand on its own and eventually run the project independently. The capacity and competence of the organization are thus crucial in the sustainability of the project.

**Making Microfinance Work for the Fisher**

While the design, methodology and products of IIMC’s SEED Project may not apply to other fisherfolk in other areas given the peculiarities of the sector and varying levels of development, other ways of making microfinance work for the fishers must be explored. Making it work for specific fisheries activities, or the sector in general, entails challenges similar to extending small credit to other agricultural sectors. What makes the context of the fishers unique, however, is the “open access” nature of their resource base. Unlike farmers, fishers depend on a resource base that is productive as long as sustained, being vulnerable to rapid decline and complete exhaustion. Given this context, supporting microfinance projects that involve extraction of marine resources might further exert pressure on the easily and already depleted fishing grounds and dwindling fish volumes, as realized by IIMC and ISO.
Hence, small alternative or non-fish enterprises seem to be more applicable for fishers, considering the faster turnover of cash that meets their daily needs and short-term expenses as well as convenient terms of loan repayment. Engaging in alternative, non-fish livelihood activities will also be contributory to the rehabilitation and regeneration of marine resources. Financing non-fish enterprises, however, is saddled by the fact that economic activities in islands, like in the case of IIMC, are often limited given the small and dispersed population. The lack of skills and assets also undermines the capacity of fishers to venture into activities not related to fishing.

On the other hand, microfinance can address the need for fixed asset loans for fishing. It can help fishers replace their inadequate fishing gears and equipment which limit their catch and render them helpless vis-à-vis the more efficient technology used by commercial fishers. Lending money for fixed assets like better nets and small motor boats may be offered in time for the peak months for fishing. These items can also serve as security (even if microfinance, in essence, is collateral-free) when assigned to the lending microfinance institution in the event the borrower does not pay his loan on time.

The shift from fisheries to land-based income-generating projects involves a total household cash flow that will help determine whether a particular project is lucrative and if the borrower has the capacity to repay his/her loans in a sustainable manner (Tangthirasunan 2007). There is also the need for MFIs catering to agricultural lending to come up with schemes that would compete with the usurious money-lenders that prey on borrowers who need instant loans and have an aversion to cumbersome documentary requirements.

All of these will only be possible if complemented with appropriate skills and technical training that will enhance client discipline and a committed, competent and efficient management team to strengthen lending and savings capabilities. Moreover, in a broader scope, policies and laws related to fisheries reforms particularly on resource management and delivery of credit should also be seriously implemented. Strict enforcement of laws on fisheries and encouraging participation on the part of the fishers in decision-making processes, as the fishers of Mercedes demonstrate, will increase their sense of responsibility over their source of livelihood. Protecting the right of small fishers to municipal waters thus requires better equipment (such as patrol boats) and personnel which the government might need to invest in. Ensuring support interventions, particularly infrastructure and basic services (potable water, electricity, sanitation, etc.) for fishing communities will also significantly help reduce the cost of extending credit to poor fishers as these will enhance the productive capacity of the fisherfolk. Finally, improving the market linkages for the
fishers’ produce and their processed products to be sold at competitive prices, and developing value chain infrastructure will also create an enabling environment for microfinance programs for fishers (Tangthirasunan, 2007).

Endnotes:

1 A third class municipality has an average annual income of PhP21,000,000 or more but less than PhP27,000,000.
Region III, otherwise known as Central Luzon, is the largest contiguous lowland area in the country and Nueva Ecija is the largest province in the region. It is surrounded by the provinces of Pangasinan and Nueva Vizcaya in the North, Bulacan and Pampanga in the South, Aurora and Quezon in the East and Tarlac in the West.

The province is composed of 27 municipalities, five cities and 849 barangays. Palayan City, its capital, is about 130 kilometers north of Manila.

The 2000 census of the population of the province reported that there are 1,659,883 inhabitants in the province. This represents an increase of 154,056 from the 1995 records.

Nueva Ecija is often referred to as the “rice granary of the Philippines.” Sixty percent of its land area is planted to rice. Seventy-nine percent of its population is in the rural areas and 54 percent of its labor force is in the agricultural sector.
**Weathering the Odds**

Rice is the staple food for 90 percent of Filipinos. As they say in the Philippines, “a meal is not a meal without rice.” It is not surprising then that a great number of Filipino farmers plant rice. In fact, around 11.5 million farmers and family members depend on the rice industry as their means of livelihood. Thirty-three percent of the country’s agricultural lands is devoted to rice.

A major concern is the relatively low rice production of the Philippines compared to neighboring countries like Thailand and Vietnam. For the period 1994-2004, the average annual rice paddy production in the Philippines was 11.9 million metric tons compared to 24.2 million metric tons for Thailand and 30.2 million metric tons for Vietnam.

The Philippines remain to be a rice importer since its rice production cannot keep up with its annual population growth rate of 2.36 percent. The Food and Agriculture Organization (FAO) data from the 1980s until the 1990s suggest that the Philippines experienced a negative growth in per capita production of rice.

For the period 1996-2006, the average rough rice yield of the Philippines is 3.18 tons per hectare.\(^1\) This average yield per hectare is decent when compared to other Asian countries. However, the country can perform much better. The Asian Farmers’ Association for Sustainable Rural Development (AFA) has characterized the overall rice production in its member countries as having low productivity. AFA attributes this low productivity in Asian countries to poor production techniques, lack of irrigation, high dependence on weather conditions and fewer areas devoted to rice due to land conversion.

The irrigation problem cannot be overlooked. According to the National Irrigation Authority (NIA), out of the 3,126,340 hectares of the estimated potential irrigable area, 53 percent remains to be developed in 2006. This translates to a total remaining area of 1,698,416 hectares.

**Rice Sector: Trends and Developments**

The Green Revolution dramatically increased food production in the 1960s as it ushered in the use of new varieties of seeds which required ample irrigation and intensive use of chemicals, both as fertilizers and as pest control. This, however, took its toll on the soil fertility and biodiversity which eventually led to declines in yield.

Due to the adverse effects of the Green Revolution, more sustainable alternatives to conventional farming began to emerge. In 1977, the International Federation of Organic
Agricultural Movements (IFOAM) first coined the term “sustainable agriculture” which it describes as an “ecologically sound, economically viable, socially just and humane” form of agriculture. NGOs and peoples’ organizations (POs) in the Philippines started to advocate these sustainable alternatives. At the frontline of these efforts is Magsasaka at Siyentipiko Para sa Ikaunlad ng Agham Pang-agrikultura (MASIPAG), a farmer-led network of NGOs, POs and scientists. The network started the Masipag Rice Technology, an alternative production technology which empowers the farmers by helping them break free from dependence on outside inputs and technological support.

While NGOs and POs have been engrossed on adopting sustainable rice technologies, the government set its sight on hybrid rice as a solution to the low harvest and income of rice farmers in the country. Hybrid rice is a high-yielding variety of rice developed in China in 1974, but Filipino farmers only started to use it three decades later.

Hybrid rice is touted by some quarters as ‘anti-poor’ since only farmers with bigger incomes are able to plant and take advantage of this rice variety. This is because the seeds of hybrid rice cost more and have to be bought every planting time. This practice is in contrast with other varieties of rice wherein the farmers can save seeds for replanting. In addition to this, hybrid rice works best for irrigated lands. Thus, it does not really offer anything new for farmers whose lands do not have adequate irrigation.

A potential threat to rice farmers is the lifting of the Quantitative Restrictions (QR) on the importation of rice which will bring about an influx of cheaper imports, most of which are highly subsidized by the governments where the products originated.

While the QR on rice has been extended until 2012, the country is still obliged to import, regardless of necessity, a certain Minimum Access Volume (MAV) of rice under World Trade Organization (WTO) rules. In accordance with the QR extension agreement, this MAV has to be increased to 350,000 MT.

Helping the Farmer throughout the Entire Value Chain: KOOL-NE’s Response to the Sector’s Development Situation

Kooperatibang Likas ng Nueva Ecija (KOOL-NE) is a farmer-led cooperative and social enterprise based in Munoz, Nueva Ecija. It was established in 2002 to support farmers from the Kalipunan ng mga Magbubukid para sa Likas-kayang Pananakahan sa Nueva Ecija (KALIKASAN-NE), an organization of farmers in Nueva Ecija established in 1993. KALIKASAN-NE’s focus is organizational development, technology promotion and advocacy.
KOOL-NE currently operates in seven towns. These are: San Jose, Lupao, Muñoz, Guimba, Talugtog, Talavera and Sto. Domingo.

During its first year, KOOL-NE had 15 members. Members slightly increased in the second year to 23 members and during its third year, the cooperative had 32 members. By 2006, KOOL-NE already had 153 members.

**Sprouting from the PRRM-KALIKASAN-NE Seedbed**

Prior to KOOL-NE’s establishment, KALIKASAN-NE forged a partnership with PRRM in its Alternative Rural Finance (ARF) and Alternative Trading and Marketing (ATM) project. These initiatives served as core components of PRRM’s Alternative Rice Production Pattern (APP) program. The APP framework integrated sustainable rice production with financing and marketing.

**Table 7. Rice Production Pattern: PRRM’s APP Framework vs. the Dominant MPP**

<table>
<thead>
<tr>
<th>The Dominant MPP</th>
<th>The Alternative APP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Method of Farming</strong></td>
<td><strong>Method of Farming</strong></td>
</tr>
<tr>
<td>High-external input or chemical dependent farming and monocropping</td>
<td>Low External Input Rice Production (LEIRP) and organic farming, Diversified and Integrated Farming Technology (DIFT) and System of Rice Intensification (SRI)</td>
</tr>
<tr>
<td><strong>Mode of Production Financing</strong></td>
<td><strong>Mode of Production Financing</strong></td>
</tr>
<tr>
<td>Dependence on usurious informal lenders</td>
<td>Self-financing credit at market rate interest</td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td><strong>Marketing</strong></td>
</tr>
<tr>
<td>Reliance on traditional traders; monopoly control of private traders and millers and too many intermediaries in the rice market channel</td>
<td>Farmer-owned and farmer-managed marketing system and elimination of unnecessary channels</td>
</tr>
</tbody>
</table>

The mainstream method of farming involves the use of high-external input. It is characterized by chemical-dependent farming and mono-cropping. The APP, on the other hand, involves the use of sustainable rice technologies such as organic farming, low external input rice production (LEIRP), diversified and integrated farming technology (DIFT) and system of rice intensification (SRI).

The mainstream mode of financing production is characterized by dependence on usurious informal lenders. That of the APP involves what it calls “self-financing credit” at market rate interest. According to PRRM, this mode of financing entails the establishment
of self-sustaining and self-reliant financial delivery systems in the rural communities. It also involves the development of new attitudes towards savings mobilization, equity build-up and credit. This financing method embodies the ARF strategy.

The way the products are marketed presents another point of difference. The mainstream way involves traditional traders and monopolies. Too many intermediaries are involved throughout the rice market channel. The APP’s adoption of ATM, on the other hand, eliminates unnecessary intermediaries. It has a farmer-owned and farmer-managed marketing system. Under the ATM, product prices are stabilized, support services are provided and value-added production is promoted.

The mainstream system of farming has many income leakages. One source for this leakage to the farmer is money spent for the exorbitant interest rates paid to informal lenders. They demand an interest rate of ten percent per month or 120 percent annually. And because most of these informal lenders are also palay (paddy rice) traders, they demand that the farmer pay his/her loan with the harvested palay. This scenario creates another source of income leakage since the trader-lender determines the price of the palay. This price is expectedly way lower than what the National Food Authority (NFA) prescribes.

Still another source of income leakage is the various layers of middlemen in the rice marketing chain. Using 1993 prices, PRRM pegs the income leakage due to middlemen at PhP1.22 per kilo of palay.

Through the APP, the necessary changes throughout the whole rice farming system are effected and the income leakages are expected to be plugged. Based on PRRM’s computations using 1993 prices, full implementation of the APP may give the rice farmer an additional income of PhP14,882 per hectare per cropping.

**Endings and Beginnings**

By 2002, the PRRM and KALIKASAN-NE joint-venture faced financial difficulties and it was decided that an internal evaluation was needed. This process brought forth a series of recommendations that eventually led to the establishment of KOOL-NE. Thus, with the birth of KOOL-NE, the joint-venture ended but the work that PRRM and KALIKASAN-NE’s partnership started with the farmers of Nueva Ecija continued.

In accordance with the APP framework, KOOL-NE’s services to its farmer members cover production, financing and marketing. In other words, KOOL-NE helps the farmer
throughout the entire rice value-chain. Its services and activities include provision of seeds and other organic inputs; provision of credit; hauling, buying *palay* that the farmers harvested; milling and marketing and selling rice.

In designing its products and its services, KOOL-NE conducts meetings and workshops with the board and staff members.

**Crop Production Loan Plus**

Lending is an integral part of KOOL-NE’s support service to promote sustainable agriculture to its members. It believes that without proper financial support, the farmers would not be encouraged to go organic. Thus, KOOL-NE ventured into providing microfinancing to support sustainable farming of its members and introduced the Crop Production Loan (CPL) in May 2002.

Being a cooperative, KOOL-NE only offers CPL to its members. To be a member of KOOL-NE, one has to be a member of KALIKASAN-NE first. However, membership to KALIKASAN-NE does not mean automatic membership in KOOL-NE.

Membership in KALIKASAN-NE requires that the farmer undergoes training on sustainable agriculture (SusAg). He/she must also pay a membership fee of PhP100. Should a KALIKASAN-NE member decide to be a KOOL-NE member, the farmer should not have any remaining debt from the KALIKASAN-NE’s previous venture with PRRM. He/she should also pay another PhP100 and raise PhP4,800 as share capital. Old members of the cooperative may pay in installments any time to raise this amount. However, a potential member has to give this amount right away before becoming a member.

The borrower-members of KOOL-NE are farmers who usually have between 0.5 to 1.5 hectares of land. The average land they possess is one hectare but there are some borrowers who have three to five hectares.

When KOOL-NE was just starting, it only provided PhP12,000 per hectare for its CPL. But now, a member could borrow PhP15,000 per hectare for each cropping season. This amount is based on the estimated actual capital requirement of PhP12,000, and PhP3,000 for providential needs. With the addition of the providential amount, the loan came to be known as Crop Production Loan Plus.

The farmer does not receive the amount of PhP15,000 entirely in cash. The value of the seeds, organic fertilizer and organic pesticides provided to the farmer is deducted
from the PhP15,000. For instance, if the farmer receives PhP1,600 pesos worth of seeds and PhP3,000 worth of organic fertilizer, PhP10,400 (PhP15,000 less PhP4,600) would be given to him as cash.

Aling Evelyn, a borrower from Guimba, preferred that the loan be given entirely in cash. She said that sometimes, a farmer could find cheaper inputs from his/her area, thus being able to save on costs. She believed it was better if it was up to the farmers to manage the money they borrowed.

Ka Peter of Muñoz shared Aling Evelyn’s view. He also thought that it was better to just receive the loan in cash and have the farmers buy the inputs. He shared that sometimes, the farmer wanted another kind of fertilizer. He also added that sometimes, KOOL-NE was also the one providing fuel to the farmer. What the cooperative did was to give the fuel to a leader for distribution but sometimes, the fuel did not reach the other farmers.

According to Mr. Marlon Palomo, Chairman of KOOL-NE, the cooperative provided farming inputs as part of CPL Plus to ensure the quality of the farmers’ produce. He shared that KOOL-NE had its own seed growers, and it was only when the supply of seeds was not enough that it sourced seeds from outside sources. KOOL-NE allowed the use of chemical fertilizers but strictly forbade the use of chemical pesticides.

On some occasions, he said that KOOL-NE did allow the farmers to use their own seeds but it still had to check and approve their quality. Mr. Palomo said that it was very important to maintain the quality of the product, and ensuring product quality starts with ensuring the quality of seeds.

Once the farmer receives his/her loan, KOOL-NE monitors the rice field of the farmer and performed weekly or monthly visits. The cooperative makes sure that it knows when the important stages of production would take place such as germination, transplanting, harvesting, etc. KOOL-NE also updates itself with the problems of the farmers and gives advice and free consultation to them.

Interest rate for CPL Plus is 3.5 percent per month or around 15 percent for four months. This amount is derived based on KOOL-NE’s evaluation of existing agricultural lending practices of cooperatives and commercial lenders in the area.

Payment of the loan follows the cropping season for rice, which usually takes four months. Payment is in lump sum but in the form of palay harvested. In this manner, the farmers are not only able to pay their loan but they also have a ready buyer for their
produce. In addition to this, KOOL-NE gives the farmers the best price in the area for their rice. Oftentimes, KOOL-NE would even give five or ten centavos more than the prevailing market price.

In spite of this payment arrangement, there are still farmers who want to pay in cash. This usually happens when the farm of the borrower is not entirely subjected to chemical-free farming. The general rule of thumb is that the yield of the portion of the farm supported by CPL Plus should be the yield that the farmer has to “pay” to KOOL-NE.

This form of payment is part of KOOL-NE’s five-year old marketing service. Mr. Arden Concepcion, General Manager, shared that a marketing program was necessary to support organic rice. He shared that if the cooperative would not match its financial support with a marketing program, then the support would be useless. He stressed that the market should be influenced to accept organically grown rice.

With its marketing support, KOOL-NE is able to help the farmers get more income. With the conventional system of marketing rice, a big amount of the profit is lost during marketing. With KOOL-NE, the farmer does not have to bother hiring a truck or another form of transport to bring his produce to the buying station. KOOL-NE hauls the harvest of the farmers from their areas. From the producer, the rice goes straight to the consumer. What the cooperative does is to remove the agents, the buying stations and rice millers. And every “layer” that is removed is translated into additional income for the farmers.

Ka Peter said that it was a big help that KOOL-NE hauled their produce. He shared that this service was especially helpful when it rained and farmers were forced to sell their palay to traders even if the price given was not good. Problems arose, however, when many members asked KOOL-NE to haul their rice at the same time. Aling Evelyn said that when this happened, fetching was delayed and the other farmers had no choice but to have other parties fetch their rice.

KOOL-NE does not have its own rice mill and warehouse. It just rents these facilities from another cooperative which is helping them out. KOOL-NE’s rice is sold under the brand “Healthy Rice.” It is organically-grown and certified as pesticide free. Unfortunately, it does not have a full organic certification yet.

Unlike traditional microfinance, KOOL-NE requires collateral from its borrowers. This can be any of the following: land title (farm or residential); registration of vehicle; proof from the barangay of ownership of tractor. Mr. Palomo though emphasized that
requiring collateral is done mostly with the new borrowers only. He added that sometimes a group of two to three farmers may be covered by one collateral.

He explained that security is asked in consideration of the cycle involved in financing rice production. KOOL-NE only receives a one-time payment after three months in contrast to weekly or even daily payments in traditional microfinance. In addition to this, a bigger amount is involved in lending for rice production. The collateral is also meant to build confidence from both sides – KOOL-NE and the members. Mr. Palomo shared that despite close monitoring, there are farmers who still sell their produce to outside parties.

There is no savings scheme included in the loan package. The savings of the farmers come in the form of the capital build-up of PhP4,800 pesos that they are required to raise as members of the cooperative.

Other Services

KOOL-NE provides rice consumption loan to its members. As a support service, the members are allowed to borrow rice, without interest, to especially help them during the lean months. The same interest rate charged to the CPL, however, is applied to the consumption loan if the borrower fails to promptly settle this loan.

KOOL-NE also offers microfinance for livelihood development support. This was introduced last 2003 and is open to non-members. The purpose of offering this loan product is to support the livelihood of other family members of KOOL-NE’s members and have a “household approach” in helping its members. Eventually, the microfinance for livelihood serves as a source of regular income (daily, weekly and monthly) for the cooperative. This proves to be helpful in supporting/sustaining the SusAg program of KOOL-NE.


As of 2006, KOOL-NE had 153 members and 100 of them borrowed from CPL Plus. KOOL-NE has only achieved “break-even” for CPL Plus. Mr. Palomo shared that economies of scale are needed for the cooperative to earn from CPL Plus. It would need around 250 borrowers contributing rice in order to attain better financial performance from the service.
Mr. Palomo believed that KOOL-NE could exert more effort to tap the 380 members of KALIKASAN-NE. But he was quick to point out that other members of the latter could not be members of the former because they still had debts to the old KALIKASAN-NE-PRRM venture. These debts are now being settled so they could finally be members of KOOL-NE. New members are also being recruited for KALIKASAN-NE.

There are 35 candidate-members from two partner-farmer organizations of KOOL-NE, being tapped to become affiliate members of KOOL-NE. These members would be allowed to borrow from CPL Plus and hence, contribute rice to KOOL-NE.

**Impact on the Farmers’ Lives**

There are anecdotal stories of clients getting their houses repaired and being able to purchase carabaos, farm equipment and motorcycles. Mr. Concepcion noted the experience of a client from the town of Guimba named Leonard. He used to borrow from KOOL-NE and his life became so much better. From a mere nipa hut, he now has a concrete house. There are also members who were able to engage in other businesses.

Another very significant contribution of CPL Plus is that its borrowers either lessened or totally stopped borrowing from usurers. With the usual credit providers, interest is 30 percent per month. This may be repaid in the form of palay but the creditors set the price of the rice. According to Aling Evelyn, “mas nakaluwag ako sa buhay (my life became more comfortable).” She attributed this positive change in her life to the lower interest charged by KOOL-NE.

The farmers also gain additional income from savings by stopping the usage of chemical inputs. According to Mr. Palomo, cost of production in organic farming is lower. For chemical farming, the typical cost is PhP20,000 per hectare. In organic farming, he said that cost is PhP15,000 per hectare or even lower.

The farmers are also able to save through payment of lower interest and from the dividends they receive as part of the cooperative. According to Mr. Palomo, there are some farmers who even registered PhP10,000–40,000 increase in income based on a 1993 profiling. For Aling Evelyn, the money she saved from paying lower interest was used for household expenses. Ka Adriano, a farmer-borrower who is also a SusAg Alternative Trading and Marketing (ATM) Officer of KOOL-NE, shared that because of CPL Plus, he no longer needed to use the money intended for the household.
Farmers also benefit from learning and applying the methods of sustainable agriculture. These new technologies like DIFT allow the farmers to have diversified sources of income. They realize that their yield would not necessarily decrease by going organic. In fact, Aling Evelyn observed that by going organic, her land has become more productive.

For his part, Ka Peter appreciated being part of a group. He shared, “Iba yung may samahan – may matatakbuhan ka (It is different when you belong to a group - you can run to someone in times of need).”

As borrower-members of KOOL-NE, the farmers also eventually become empowered, observed Mr. Palomo. In fact, they were able to train other farmers in sustainable agriculture. With the help of PRRM and KALIKASAN-NE, the farmer-officers of KOOL-NE were also able to engage with different government bodies. These engagements have been very fruitful and the advocacies contributed to favorable changes in the policies of these government bodies.

KOOL-NE pushed its advocacy for the Land Bank regional office in Nueva Ecija to support organic rice farming through credit extension. KOOL-NE was also the first organic rice wholesaler and retailer to secure a license to operate from the National Food Authority (NFA).

KOOL-NE was also able to encourage the Philippine Rice Research Institute (PhilRice) to support organic rice farming. PhilRice agreed to train KOOL-NE’s seed growers and they helped in the pilot-testing of organic rice production. PhilRice also provided assistance in rice by-products development and “appropriate technology” development.

In addition to these milestones, KOOL-NE was also able to convince the Philippine Crop Insurance Corporation (PCIC) to insure organically-grown rice crops. Prior to that, PCIC only insured certain rice varieties planted using the technology recommended by the government.

Problems

According to Mr. Joselito Tambalo, Vice-Chairman of KOOL-NE, it is difficult to procure organic inputs such as processed fertilizer. It is also very difficult to get organic certification. Mr. Concepcion said that getting a certification from the Organic Certification Center of the Philippines (OCCP) is too costly as it requires a supervision fee of PhP10,000. He said that its criteria are too strict and it seems to protect the consumers alone and not
the producers. He believed that the process of obtaining organic certification should be free.

Mr. Tambalo also pointed to the lack of funds of KOOL-NE as another problem. If there are no funds, it takes longer for the borrowers to get their loans. It also prevents the cooperative from servicing a larger community. During these times when KOOL-NE has low funds, what it does is to allocate the funds among its members.

The delays in loan releases force member-borrowers like Aling Evelyn to borrow from other creditors who charge higher interest rates. Ka Peter was quick to add that sometimes, release of the loan from KOOL-NE was delayed when many members were not able to pay their loans on time.

Non-payment of loans is also an issue. This usually happens when there is a calamity like a typhoon or drought. In 2004 and 2005 when the region was plagued with pests and typhoons, very few farmers were able to pay and KOOL-NE was not able to recover its costs.

In addition to calamities, the small farm lots of the farmers make their economic conditions fragile. What they earn is not enough for their household needs. Thus, they need to develop value-added products to augment their income. Mr. Palomo suggested adopting diversified and integrated farming systems which are more suited to small parcels of land in the country. These farming systems maximize the use of land and increase income sources.

The cooperative also needs to increase its production of rice. To do this, it needs to tap more members. Upland Marketing Foundation, the buyer of KOOL-NE’s rice products, wants to be supplied with 200 bags of rice per month but KOOL-NE could not meet this requirement. As of September 2007, KOOL-NE was only able to supply Upland Marketing Foundation with 100 to 150 bags a month.

Finally, a major problem in terms of national policy is the government’s lack of support for sustainable agriculture. This is very critical because if farmers do not have access to credit and marketing support, they may not continue to pursue sustainable agriculture.

**Plans**

KOOL-NE’s foremost plan is to increase its members to achieve economies of scale. It intends to accept affiliate members from other organizations and recruit more members.
from KALIKASAN-NE. The immediate target of KOOL-NE is to have 200 members but the dream is to register 1,000 members.

The cooperative’s loans are currently being restructured and refinanced. In particular, it is planning to increase its credit line with Land Bank and NLSE. KOOL-NE is also designing proposals for submission to potential funders and partners.

KOOL-NE plans to engage in various value-adding livelihood activities whether agriculture-based or not. The cooperative wants to develop feed supply for backyard raisers, and to set-up feed milling facilities. KOOL-NE has already done research on this venture but it still has to look for suppliers. Finally, the coop hopes to scale up its production of rice by-products like rice wine, rice coffee and carbonized rice hull.

What Works and Doesn’t Work for the Rice Sector

KOOL-NE learned several lessons in the course of implementing the Crop Production Loan Plus.

First, is the importance of learning the character of the farmers. Mr. Concepcion shared that the weakness of the farmers is their individualism. He observed that they lack unity. He pointed out that “until they learn to unite, they will always be at the mercy of the rice millers/middlemen.”

He also stressed the importance of making the farmers realize that the cooperative needs to earn and survive. He believes that the farmers should learn the value of discipline as well as the importance of re-investing their earnings/dividends. Farmers need to consider farming as a business venture.

Mr. Concepcion also wanted to correct the notion that all farmers are “kawawa” (pitiful). Close monitoring may be needed but there are farmers who do not need much supervision. He also added that the farming business venture is really risky. He stressed the need for a good policy and business plan.

Mr. Palomo shared that in the business of organically-grown rice, it is important to maintain the quality. Consumers would notice if the taste of the rice changed. He hence stressed that it is essential to certify the seeds, and to ensure that the drying is done correctly, etc. Periodic monitoring in all the stages of rice production is very crucial.
It is likewise important for KOOL-NE to buy the borrower’s palay right away once it has been classified. The price of rice is susceptible to fluctuations, and the next day the price could be different. It is also the proper service to the farmers. That is how the usurers do business with the farmers.

In effect, Mr. Palomo suggested approximating the way the usurers/merchants in the area deliver their service to the farmers, and the need to do better than them. An example he gave is the practice of usurers of giving the loan right away to the farmers. He said that the cooperative must convince the farmers that its ways are better than those of the usual moneylenders.

Making Microfinance Work for the Rice Farmer

KOOL-NE’s practice of providing inputs and buying the produce of the rice farmers is effective in ensuring that its members stay committed to organic rice farming. Without access to organic inputs and without a ready market for their produce, the farmers may easily abandon organic farming. As such, payment in terms of palay instead of cash makes it convenient for the farmers to pay their loans.

Mr. Palomo expressed it aptly when he said that the support system for agriculture, rice farming in particular, should cover the whole process – seed production, planting, harvesting, post-harvest (drying, milling, storage, etc.) and marketing. There should be value-chain financing, marketing assistance, and facilities support. He explained that such a support system is necessary because the open market/usurers will not tend to the farmers’ concern, especially for organically-grown products. There are too many middlemen in rice farming but at least the farmers will fetch better prices and consequently greater income if given support.

This support system throughout the entire value-chain should be done not only by the MFI’s but also by the government. At the national level specifically, there should be policy support for agricultural development and for sustainable agriculture in particular.

He recommended that other MFIs should consider introducing a livelihood development program involving family members or what he calls the “household approach.” In this way, other members of the family are able to help contribute to the household’s income.

Mr. Palomo now challenged the MFI community to develop products that approximate what KOOL-NE does for the farmers because many MFIs are turning their backs on
agriculture-based clients. He lamented that MFIs in the Philippines are selective since many are biased towards areas that assure more sustainability. He stated, “if the MFIs ignore agriculture, then they are not addressing the needs of the very poor sectors in the country.”

Endnotes:

1 The organizational nature of KOOL-NE is “corporative” in a sense that it is a cooperative but supervised professionally with a corporate-type of management.

2 Normally, the borrower gets money in three days after application if funds are available. He may even get half of his money right away.
MAKING MICROFINANCE WORK FOR THE SUGAR FARMER/WORKER

Negros Women for Tomorrow Foundation, Inc., Bacolod City, Negros Occidental

Negros Occidental is the sugar capital of the Philippines. Located in Western Visayas, the province has the largest area of sugarcane lands and produces the most sugarcane in the country. In 2004, the amount of land devoted to sugarcane in Negros Occidental reached 388,627 hectares, accounting for 42.8 percent of total sugarcane lands in the country. Bukidnon and Negros Oriental follow with 15.8 percent and 8.1 percent respectively.

A major producer of sugarcane, it accounted for 46.9 percent of the country’s total sugarcane production in 2004. This translates to 25,579,214 ton canes.
with a value of PhP423,847.58 million for that year. Negros Occidental also has the highest yield with 72.16 ton canes per hectare in 2004.

The sugar industry is very dependent on Negros Occidental that the province’s agricultural lands are almost totally planted to sugar.

**Bittersweet Taste of Land Reform**

Most of the poor people in Negros Occidental earn their living from working in sugar haciendas, even dating back to the time of the Spaniards. With the implementation of the Comprehensive Agrarian Reform Program (CARP) in 1988, sugar workers were given the opportunity to become owners of the lands they tilled.

Sadly, Negros Occidental remains to be an area where the implementation of CARP is highly contentious. Around 90 percent of the balance of the Compulsory Acquisition (CA) of Private Agricultural Lands (PAL) is concentrated in just 15 provinces, with Negros Occidental leading the pack with 18 percent of the undistributed lands.

As of December 2004, after 16 years of CARP implementation, the national PAL-CA accomplishment was only 16 percent of its total scope. This translates to a remaining balance of 1.26 million hectares. Essentially, what propped up the total land distribution accomplishments were land distribution under government-owned lands (GOL), voluntary land transfer (VLT), voluntary offer to sell (VOS) and operation land transfer (OLT). GOL, VLT and VOS have gone beyond their respective scopes and all have accomplishments of over 100 percent, masking the low accomplishment under CA.

For the sugar farmers who were fortunate enough to own land through agrarian reform, their average landholding is 1.25 hectares. However, due to lack of capital, most of the ARBs could not make their lands productive. They have been given the Certificate of Land Ownership Award (CLOAs) but they often do not have sufficient money to sustain the production and productivity of the land. They could not secure loans because they have no collateral to offer. As a result, many farmers ceased working on their lands and just allowed their existing sugarcane plants to re-grow, even up to the 5th ratoon¹. It was too costly for them to engage in a new cycle of planting. Because of this situation, there was very low yield of sugarcane and the economy of the island was affected. Many ARBs ended up leasing, pawning, or selling their newly acquired lands.
Helping the Sugar Farmers of Negros through the Micro-Crop Loan: NWTF’s Response to the Sector’s Development Situation

For more than 20 years now, the Bacolod-based Negros Women for Tomorrow Foundation, Inc. (NWTF) has been helping the poor of Negros. It was established in 1984 in response to the 1983 sugar crisis, and to particularly help the women in depressed communities in Negros Occidental. By 2006, NWTF already had 38 branches found not only in the island of Negros but also in Bohol, Cebu, Samar, Leyte and Palawan.

In 1989, it started its Microfinance Operations through Project Dungganon using the Grameen Bank methodology. Subsequently, it offered an individual lending program called Project Kasanag in 2000.

Aside from simply providing credit, NWTF offers other products like the Project Dungganon Insurance Package that includes life insurance, hospital income benefit, accidental death benefit, disability benefit, medical reimbursements and weekly indemnity. In 2004, NWTF introduced its Scholarship Program and in 2005, it opened Dungganon Bank, a Microfinance Thrift Bank. According to NWTF, the bank would enable its poor clients to receive professional services and have access to more specialized financial opportunities.

Based on a study it conducted, NWTF found that it has been successful in helping its Dungganon clients. According to the study, twenty-eight percent of member-borrowers who stayed with NWTF for five years were able to come out of poverty. This finding, however, made NWTF realize that while it had a positive impact on its borrowers, it has yet to make an impact on the sugar industry.

NWTF believes that helping the sugar industry is important because making the industry flourish would be the quickest way to free the marginalized Negrenses from poverty. The Grameen Bank methodology offered to its borrowers did not seem appropriate for agriculture. Thus, it introduced the Micro-Crop Loan in 2005.

The Micro-Crop Loan

According to Mr. Al Guevarra, General Manager for the Micro-Crop Loan, the idea of offering this loan product came from NWTF’s Research Manager, Mr. Gilbert Maramba. Being a sugarcane planter himself, he foresaw that there was a need to provide financial assistance to the farmers if they were to truly benefit from agrarian reform and not end up losing their newly acquired land.
By the last quarter of 2004, NWTF designed its products and scouted for prospective member-borrowers for the Micro-Crop Loan. A focus group discussion (FGD) with ARBs was conducted by NWTF in order to fully understand their situation and determine their needs.

The FGD also served as an instrument for NWTF to identify the loan products already available to the ARBs, and what they liked and disliked about these products.

After designing the loan package, NWTF then performed costing. It came up with two estimates to determine the interest rate to be charged to the members. One estimate was the level by which NWTF would recover its costs and sustain its operations. Another estimate considered the projected income of the farmers. When both estimates yielded positive figures, it was taken as a signal to go ahead with the project, and the Research Department of NWTF presented the design of the Micro-Crop Loan to the board of NWTF.

The consultants for the project were Punjab sa Tao Foundation, the Netherlands-based inter-church organization ICCO, and the Microfinance Council of the Philippines, Inc. The ARCDP II, under the auspices of DAR and the World Bank, provided computers, motorcycles and subsidies allowance. NLSF also provided funds for the project.

When the forms, processes and job descriptions were finalized, the Micro-Crop Loan was ready to be piloted. By December 2004, the first training of members was held.

Centers

The Micro-Crop Loan was offered not only in Negros Occidental but also in Negros Oriental. The first centers where the loan was offered were in Brgys. Sta. Rita, Magususunog and Abante in Negros Oriental, and in Brgys. Siazon, Pangulayan and Magdalen in Negros Occidental.

Centers are the heart of the Micro-Crop Loan operations and their formation is mandatory. A center is a place where every business transaction is conducted, analyzed and approved.

Centers serve as the farmers’ own “bank” and it is just NWTF which provides the funds. The centers make it possible for NWTF to employ a supervised credit scheme which is meant to empower the farmers. The farmers are encouraged to arrange the
center meetings themselves. They facilitate the meetings and NWTF just listen during the meetings presided by the farmers.

To be eligible to borrow from the Micro-Crop Loan, one must be an ARB. Small landowners are also allowed, but he/she can only enroll a maximum area of three hectares for the loan.

The centers to be established must have 15 to 29 members, whose lands are contiguous. The combined land area should be 25 to 50 hectares.

The members should know each other; they should select fellow members whom they know as creditworthy. Members, ranging from 18 to 60 years of age, should be permanent residents of the barangay for more than two years.

Before getting a loan, farmers are required to attend a three-day seminar so that they would know the expectations from them and their responsibilities as members. There is also a means test and a background check.

**The Loan Facility**

The Micro-Crop Loan includes labor cost to compensate the farmer’s labor in his/her own land. In essence, “the farmer gets a salary” from working in his own farm. Based on NWTF’s FGD, it was found out that the ARBs prefer the hacienda practice of being paid a fixed wage. Thus, NWTF decided that it was best to recreate this scenario by including labor cost in the loan amount. In this way, the farmer is able to support his/her family during the production stage.

Each of the centers has a different tariff rate for labor cost because of their varying locations. Even in the same town, tariff rates may vary. Like in the town of Murcia alone, each of its six centers has different tariff rates. For some areas, it is PhP250 per pass of carabao. Or the tariff could go as high as PhP320. Some are paid per hectare per day.

Farmers can borrow a maximum amount of PhP35,000 per hectare for the first planting. This includes labor cost, expenses from land preparation, planting to milling.

A maximum amount of PhP25,000 per hectare can be borrowed for ratoon. Costs are cheaper with ratoon because land preparation and buying some planting materials are not needed at this time.
Usually, farmers limit their planting to up to three ratoons to keep production at its peak. But because of lack of capital, there are farmers who plant until the 6th ratoon. This is not a good practice because sometimes, “missing hills” in the sugar cane field become too many with each ratoon.

The actual amount that the farmer can borrow is based on his/her submitted farm plan. The farm plan is another unique feature of the Micro-crop Loan. It contains the proposed production schedule of the farmer, including his projected expenses.

Loan releases are staggered based on the amount requested from the farm plan, and the amount released does not have to be the same for each month. For instance, the loan released for the first month may be PhP7,000 but in another month, it may be PhP3,000 or nothing at all.

Usually during the first four months, the releases are bigger. This is especially true for new planting where 50-60 percent of loan proceeds go to fertilizer.

The interest rate for the loan is three percent per month. Since the release of the loan is staggered and the bulk of the amount released is concentrated during the first month and before harvest time, the effective interest rate may result to as low as 23-25 percent per annum. Clients who were interviewed for this study assessed the interest rate as either affordable or burdensome. To the borrowers of Tunangan, the interest rate was perceived as high and they wished that it was lower. On the other hand, the interest rate was considered low by the borrowers of Cataywa and Siazon. According to Ka Ronelo of Cataywa, he was happy with the interest and he said “sa ibang nagpapautang, yung halagang PhP6,000, hindi mo maikain, pambayad lang ng interes (with other lenders, the amount of PhP6,000 was not used to buy food, it just went to interest payment).” Ka Adoracion, who is also from Cataywa, confirmed this and said “mas lugi sa moneylenders (you lose more in dealing with moneylenders).”

The period of payment for the Micro-Crop Loan follows the cropping cycle of sugar cane after the harvest has been milled and sold. Harvesting of sugar cane usually takes place between ten months to a year from planting.

Payment of the loan is by lump sum. NWTF does not require any collateral from its borrowers but group responsibility is encouraged through 50 percent refund of the development fee if the center has a 100 percent repayment rate. A development fee of five percent of the loan amount is required from the borrowers, and this amount is used as funds for the training activities of the farmers.
The borrowers from Cataywa shared that at first, the no-collateral policy seemed too good to be true. In fact, they thought it was a joke that someone would lend for agriculture with no collateral. But since they really needed the money and the reputation of Project Dungganon of NWTF was good, they were convinced to borrow.

Savings is not embedded in the loan of the farmers but NWTF encourages its borrowers to save. For savings amounting to 20 percent of the farmer’s previous loan, the interest earned from the savings is four percent per annum. For savings of more than PhP100 but less than 20 percent of the previous loan, the interest to be earned would be slightly less at two percent per annum.

**Micro-Crop Loan Performance 2005-2007**

There are 64 centers for Micro-Crop sugar farmers, and 1,335 members as of July 31, 2007.

The loan portfolio for the pilot year was almost PhP5 million and increased tremendously in 2006 to around PhP30 million. Because there were suddenly many farmers who wanted to borrow, NWTF became very confident about expanding but the loan portfolio turned out to be too large. NWTF later realized that it was not wise to expand by more than 100 percent. It also learned that every time there is a new product, one should not expand immediately.

NWTF does not deny that it is encountering repayment problems with the Micro-Crop Loan. In fact, it is very vocal about it. The portfolio-at-risk (PAR) for the crop cycle 2005-2006 was PhP1.8 million. The next crop cycle of 2006-2007 unfavorably posted a higher amount of PhP7 million.

**Table 8. Key Operational and Financial Data of NWTF for Crop Cycle 2005-2007**

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<td>Total Loan Portfolio (PhP)</td>
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<td>31 million</td>
<td>33 million</td>
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<td>No. of Borrowers</td>
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<td>Average Amount Per Client (PhP)</td>
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<td>PAR (PhP)</td>
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<td>7 million</td>
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<tr>
<td>Repayment Rate</td>
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<td>75%</td>
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</table>

n.a.: not available.
Although most of the centers have fully paid their loans, there are centers which remain problematic. All the centers in Negros Oriental, as well as Tunangan in Negros Occidental, have more than 50 percent defaulting members.

The centers in Negros Oriental are located in hilly areas which are not really suited for sugarcane planting. The borrowers from other centers such as Tunangan and Magdalen centers 1, 2 and 3 defaulted on their loans because of attitude rather than their economic condition. Rumors have spread that after their present loan, NWTF would not lend to them again so the farmers held on to their money instead of paying back the loan. These areas were near one another and the people influenced each other. The centers were not willing to pay and always came up with various excuses even if they had enough harvest. They complained that they needed trucks. But when they were sent trucks, they still refused to haul. This attitude was in sharp contrast to that of the farmer-clients from Negros Oriental who were willing to pay even if they were hard-up.

The farmers of Tunangan and Magdalen also engage in pole vaulting – they have their sugarcane milled under someone else’s name as a way of diverting the sugar proceeds. In this way, the farmers are able to make it appear that they do not earn from their harvests, thus, not having enough money to repay their loans.

To address the problem of repayment, NWTF instituted a strategy to collect payments from farmers with arrears. When the sugarcane farmer procures a trip ticket from the mill association, basic information is written on the ticket, including the plate number of the truck which hauls the cane. The driver of the hauling truck would bring the ticket to the mill. At the mill, sugarcane would be weighed and the total weight would be noted down.

After milling the cane, the mill would issue a quedan. A quedan is a warehouse receipt stating how much sugar was produced from the canes. These quedans can be converted into cash through the traders. The traders, in turn, issue checks.

NWTF made an arrangement that the trip ticket and quedan would bear the name of the farmer with arrears and NWTF, and that NWTF’s name would also be written on the check issued to the client. The check bearing both the name of the farmer and NWTF could not be encashed without the presence of both parties. In this way, the farmer who has arrears could not give poor harvest as an excuse for not paying their loans.

Unfortunately, not all sugar associations are cooperative with this arrangement. They said that NWTF is not paying them for additional work in relation to the request. One of
the associations that did not support NWTF’s mechanism to ensure payment from farmers with arrears is Central Azucarera de la Carlota, the biggest milling station in La Carlota.

Despite the defaulting borrowers, NWTF has not filed any legal action, nor has it threatened to file legal cases against its delinquent borrowers. It prefers the voluntary way of doing things. NWTF reckoned that problems encountered with the borrowers actually reflect problems with the implementers of the loan. It thus realized that there is a need to study the product design and a change might be in order.

However, NWTF recognizes that not all repayment problems are the fault of the lending institutions and the clients. The sugar traders and the millers also have a part in it. As Mr. Maramba lamented, “How would you explain lower farm gate prices but increasing retail prices (over the years)?”

Despite the repayment problem, NWTF is keen on continuing the Micro-Crop Loan, although expansion to other areas has been put on hold. The third year of the Micro-Crop Loan, which started in the last quarter of 2007 would serve as a re-assessment stage, to determine why there is a big PAR and how to solve this problem. The goal of NWTF is to reduce its PAR by PhP4.6 million through close monitoring and perseverance in collecting payments. Only after this was done would the Micro-Crop Loan continue its expansion and even expand to other sugar areas outside Negros such as Batangas, Bukidnon and Pampanga.

**Other Problems**

While repayment is the main problem of the Micro-Crop Loan, other issues also affected its performance.

One issue is the suitability of the areas to sugarcane planting. Some of the areas chosen by DAR are very hilly, like Pamplona in Negros Oriental, and which are originally coconut areas. These areas are also far from the mills, thus hauling expenses are huge.

Another problem at the field level is that some farmers do not know enough about appropriate sugarcane planting. The farmers lack knowledge in appropriate cultivation of sugar cane. This is especially true with fertilizer application. Most farmers are clueless as to how much fertilizer to use and at what stage. The production processes used by the farmers, most notably in Negros Oriental, are still from the 50s and 60s. They continue to use old varieties so that when they buy new varieties, they do not know how to use them.
Delayed releases of loans also occur every now and then. When this happens, the farmers have no choice but to borrow from the usual loan sharks. Ka Ronelo experienced this and he hoped that there would be no delays because he did not want to borrow from other lenders anymore. There were also members in Tunangan who experienced delays in loan releases.

NWTF attributed these delays to bottlenecks – for some centers, the approval of checks was centralized. This problem of delayed releases only happens when check approval is done in the head office. There are no delays in the branches. This issue of delays is addressed through the issuance of post-dated checks.

**Impact**

In spite of the challenges in offering the Micro-Crop Loan, the officers involved remain very optimistic and they have not given up on their desire to help their members. Perhaps this is because they have seen that the Micro-Crop Loan has contributed to the betterment of the lives of its members.

While the actual impact of the loan has not yet been measured, there are anecdotal accounts of economic impact. The farmers have expanded their asset base. They were able to buy farm animals like cows and carabaos, and any excess money was used to repair and improve their houses or even construct their own houses.

Many members no longer relied on the loan sharks. The farmers were released from the bondage of usurious financiers. Ka Edilberto from Cataywa was pleased that now he is able to have extra money to be used for his household’s expenses. He quipped “*may safety ka, ‘di nauubos sa lahat ang pera* (you are safe, not all of your money is spent).” Access to credit is very much appreciated by Ka Ronelo. He said that with the Micro-Crop Loan, he did not have to worry where he will get the money to buy fertilizer and other inputs. With other creditors, there was no certainty that one will get a loan if he approached them. Ka Edilberto said further that with the Micro-Crop Loan, it was not difficult to borrow money as long as you pay your loans.

The Micro Crop Loan has been able to contribute much to the empowerment of its members. Mr. Maramba shared that the members in Siazon were very quiet during the first year. But on their second year, the members were already talkative and their meetings have become very interactive.

Ka Adoracion shared that the people of Cataywa have become used to having visitors who wants to hear about their experiences. “*Nasanay na kami sa pakikisalamuha sa ibang*
“tao (we have become used to dealing with other people),” she said. She attributed this to the seminars they attended as members of Micro-Crop Loan.

In some centers, the members even joined barangay elections and they thanked NWTF that through the Micro-Crop Loan, they learned to speak in front of people. In general, the members of Micro-Crop have learned to become vocal, to speak their minds, and complain if necessary.

Most of the borrowers in Stella, La Carlota are women who confirmed that the Micro-Crop loan has been very helpful to them. Mr. Maramba shared that whereas before, the women just depended on their husbands in doing farm work, today they help in buying fertilizer and other inputs. The work in the field is now shared between husbands and wives.

**What Works and Doesn’t Work for the Sugar Sector**

In less than five years of offering the Micro-Crop Loan, NWTF has learned some valuable lessons along the way.

Topography is very important as seen from the pilot areas. NWTF has learned that when an area is not agriculturally-suitable for sugarcane, it should not accept applications for Micro-Crop loans on such farms. Some borrowers plant sugarcane in their field if only to avail of the Micro-Crop loan, and even if the soil is not conducive to the crop. These areas are what farmers refer to as “red soil.” The DA, Department of Environment and Natural Resources (DENR) and NLSF prefer these areas because they probably think that these areas are more depressed.

Planting of sugarcane in the uplands is more costly because tractors find it difficult to access these areas. There were times when the canes could not be hauled and the produce just over-matured. Sugarcane is better planted in the lowlands.

It is also very important to evaluate the borrower’s capacity and willingness to pay. That is why it was essential to stick to the criteria set. There were times when non-ARBs were allowed to get loans; it turned out that they became the problematic clients. They were allowed to borrow because NWTF was afraid that there would not be enough interested clients.

NWTF has also seen how valuable the centers are and that it is important to maximize the use of the centers. To do this, NWTF worked on giving the centers more responsibility and empowering them. During center meetings, the client would tell his financing needs
and he would propose the amount he wants to borrow. The center would then decide if the amount is too big or not. Without the center’s approval there would be no release of a loan.

The MFI has learned that if one is into financing, it is best to stick to financing. It is not always advisable to directly engage in activities such as organizing. Sometimes, the farmers would become over dependent on the MFI, and the latter would end up being blamed.

Despite the hard learning and realizations, the people behind the Micro-Crop Loan agree that working for the farmers is fulfilling, although difficult. They believe that given the proper policies and guidelines, microfinance for agriculture may succeed. They believe that one must not generalize that farmers cannot pay.

As for the microfinance industry, Mr. Maramba believes that that one of the industry’s directions in the future is to engage in agricultural microfinance. Due to fierce competition, the MFIs would have no recourse but to expand their services to the agricultural sector which comprises the majority of the country’s population.

**Making Microfinance Work for Sugar Farmer/Worker**

The practice of NWTF of including a “salary” for the farmer in the loan amount is very apt for the sugar farmer since the farmer only realizes income from sugar cane production after the milling season. This wait for income can take an entire year. Without this “salary,” the farmer would have nothing to support his/her family while waiting for the milling season to end. This is in sharp contrast to the sugar farmer’s previous experience of working in haciendas where he/she got a fixed wage.

The formation of centers is also an effective means for the farmers to discuss problems they encounter with their farming and other related activities. Since most of these sugar farmers did not own their own land previously, they do not have much experience in managing their farms and marketing their produce.

To help the sugar farmers, Mr. Maramba believes that the government should do something about the problem with post-harvest facilities, infrastructure and marketing channels. He felt that it is only the consumers who are protected, not the producers. He shares that there should be a legislation protecting producers. He also added that the government should address the problem of sugar smuggling.
There is a problem of viability of agricultural products and price. Mr. Maramba lamented that the government is only interested in providing trainings. He adds that government bodies tend to prefer giving trucks but do not provide funds for the maintenance of these trucks.

To promote microfinance for agriculture, Mr. Maramba suggested that the government should find a way to lower the cost of money to MFIs. The government must realize that income from agri-microfinance is lower than the usual urban-based microfinance operations. Because collection of payment is done only one time, that is, after harvest, effective interest rate can almost be equal to nominal rate. He shared that if the cost of money is lowered, the interest rate on Micro-Crop Loan may also be reduced, making it more affordable to the farmer-client.
In this documentation of microfinance schemes and practices for the agricultural sector, the rice farmer, coconut farmer, sugar farmer/worker and fisher were prioritized among other crop producers owing to the significance of these sectors to the Philippine rural economy as well as the persisting development issues hounding them. Rice, for one, is the staple food for 80 percent of Filipinos, and 33 percent of the country’s agricultural lands are planted to rice. Coconut is a major industry after rice and corn. One-third of the population is dependent on the industry. Mono-cropping of sugar in Negros Island, on the other hand, has made the local people highly dependent on the industry for their living expenses. Finally, the fishing industry is the backbone economy of over a thousand municipalities in the country. Yet coastal resource depletion due to over-fishing, coupled by the increasing population in those areas, has made the fishers one of the poorest sectors. Below is the average landholding and monthly income of the small farmer/fisher:

### Table 9. Average Landholdings and Monthly Incomes

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average Landholding/Asset Size</th>
<th>Average Monthly Income (in pesos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice farmer</td>
<td>1 to 1.5 hectares of rice land</td>
<td>20,695 (based on an average harvest of 100 cavans x 50kg/cavans priced at PhP11.00 per kilogram)</td>
</tr>
<tr>
<td>Coconut farmer</td>
<td>3 hectares of coconut land</td>
<td>9,000 (from copra alone; another PhP10,000 from other sources)</td>
</tr>
<tr>
<td>Sugar farmer</td>
<td>1.25 hectares of sugar land</td>
<td>7,000-10,000 (per hectare per cropping)</td>
</tr>
<tr>
<td>Fisher</td>
<td>With fishing vessels of 3 gross tons or less</td>
<td>3,000 (from fishing alone, with seasonal income)</td>
</tr>
</tbody>
</table>
Several government policies and programs have been instituted for these sectors. Crucial among these and encompassing all sectors are the Agri-Agra Law of 1975, the AFMA and the Agro-Industry Modernization Credit and Financing Program, RA 8425 which created NAPC, PCFC and the People’s Development Trust Fund, EO 138 allowing greater participation of the private sector to provide credit services and the General Banking Law of 2000.

Key issues and developments specific to each sector, on the other hand, include the years of chemical farming for rice, hybrid rice technology and the promotion of the use of high-yielding rice varieties instead of the traditional varieties, non-resolution of the coco levy, implementation or non-implementation of CARP for sugar lands, and violation of the Philippine Fisheries Code, particularly by the commercial fishers, with regards to municipal waters.

The Case-MFIs

NWTF is the oldest organization (1987) among the four cases, followed by CBCS (1994), KOOL-NE (2002) and IIMC (2007). Each MFI has a different form of organization — NWTF is a non-government organization, CBCS is a bank, KOOL-NE is a cooperative and IIMC is a people’s organization. Despite the difference in form, their purpose or mission in the realm of agri-microfinance is generally the same, i.e., to provide or facilitate access of the member-farmers / fishers or the poor agricultural clientele to credit and other financial services.

The context of entering into this arena is also different and unique for each of the MFIs. NWTF has long been engaged in microfinance, but to be able to make an impact on the socio-economic situation of the sugar farmers and help the sugar industry altogether, it saw the need to offer relevant financial products and services to the sugar farmer. In view of the financial policies and programs promoting microfinance, CBCS on the other hand seized the opportunity to expand its client base, while finding a way to reach more poor coconut farmers.

The cases of KOOL-NE and IIMC are more comprehensive. Being an organization which promotes sustainable agriculture and organic farming in particular, it is important for KOOL-NE to provide support throughout the whole value chain of rice production to marketing, including financial assistance. IIMC, on the other hand, has appreciated the need to bring out alternative livelihood activities to augment the fisher’s income while preserving or protecting the resources of the seas.
Practices, Processes and Schemes

Three out of the four cases follow the credit plus approach largely dictated by the nature of their organizations. Apart from its main mission of offering credit and financial services, NWTF, KOOL-NE and IIMC provide organizing, training and value formation sessions, and even some assistance in marketing. Only CBCS which is primarily a bank observes the minimalist approach.

The agricultural microfinance product offered by the four MFIs is mostly of the farm or production type of loan usually for working capital. CBCS and IIMC also finance non-farm projects such as trading or vending even of non-agricultural items. CBCS considers this type under its microfinance program for coconut farmers since its minimum policy is to cater to coco farming households even if the project is not related to coconut production. IIMC, on the other hand, sees these non-farm projects as the alternative livelihood to fishing.

The amount lent to the borrowers as guided by policy and based on actual loans granted is PhP50,000 and below. The range of amount is determined primarily based on production need and the cash flow of the client given her or his other sources of income. Other factors which help the MFIs in deciding how much to lend are the rates being offered by peer lenders, policy of ceiling amounts by fund providers and the client’s character.

Interest rates range from 1.5 to 3.75 percent per month or 18 to 45 percent per annum. The rates are pegged following market rates or those offered by coops and commercial lenders for agricultural financing in the areas, and in consideration of policies or guidelines of the wholesale creditors. MFIs also ensure that the interest rates are sufficient to recover costs of transactions, while affordable enough on the part of the farmer/fisher-borrower to still realize incomes from their projects.

The period of payment for both agricultural and non-agricultural loans lent to the farmers generally follow the three to six month duration typical of a microfinance loan. In consideration of the cropping period and cash flow, the MFIs allow various modes of payment for agricultural loans from weekly, fortnightly and monthly, to lump sum at harvest time. In the case of CBCS, a grace period of two months for financing of vegetables was also granted.

Except for KOOL-NE which requires a collateral from its new borrowers, all agri-microfinance loans are essentially unsecured. Security comes in the form of peer pressure,
group accountability and voluntary surrender or assignment of movable items such as appliances, furniture, machine and equipment used for the project.

In keeping with the original microfinance schemes, savings activities are incorporated into the package by two of the case-MFIs, specifically CBCS and IIMC. The amounts accumulated cannot be withdrawn until such time that the borrower fully pays the loan or decides to disengage from the microfinance activity. NWTF also accepts voluntary savings whereby amounts can be deposited and withdrawn anytime. As a cooperative, KOOL-NE has its own capital build-up scheme.

**Status of Agricultural Microfinance Operations as of 2006-2007**

From 2006 to 2007, NWTF reported the highest total loan portfolio among the four MFIs at some PhP30 million. CBCS is second, having reported loans around PhP20 million. As a newcomer to the microfinance industry, IIMC posted the lowest portfolio at PhP180,000 as of July 2007. Average amounts granted was lowest for IIMC at PhP4,462.03 while the highest was registered by NWTF at PhP28,181. Satisfactory record of repayment was displayed by CBCS and IIMC which opened non-agricultural loans to their respective target sectors. KOOL-NE’s Crop Production Loan Plus and NWTF’s Micro-Crop Loan which offered solely crop production loans experienced more problems in repayment.

Client outreach was highest with CBCS at about 3,000 borrowers whose minimum client qualification was to belong to a coconut farming household or a coconut agrarian reform community. Some 50-60 percent of the volume and value of its microfinance operations for the period in review benefited farmers while the balance was extended to workers in the informal sector. Similarly, the IIMC clients needed only to belong to households directly or indirectly dependent on fishing activities.

KOOL-NE reported break-even operations for its Crop Production Loan Plus. NWTF experienced repayment problems given a PAR of PhP7 million for the crop year 2006-2007. On the other hand, the microfinance operations of CBCS contributed 16-21 percent to overall gross income and 45-54 percent to net income while IIMC reported initial gains. Accounting for the better income performance of CBCS and IIMC was again the inclusion of non-agriculture, short-gestation loans of coconut or fish-based clients. Purely offering crop production loans, such as in the case of KOOL-NE’s Crop Production Loan Plus and NWTF’s Micro-Crop Loan, brought about a lackluster earning and repayment performance.
Meantime, clients shared anecdotal stories of the contribution of agri-microfinance to their lives, such as having their houses repaired given more income, and being able to buy carabaos and farm equipment in the case of KOOL-NE and NWTF. Both clients and MFIs especially noted that the borrowers have become more confident and empowered in their dealings. NWTF clients learned to transact business and do things on their own. After some consultation with ISO’s microfinance team, the fisher-clients were able to decide which projects to pursue. For CBCS, their women-clients have become busy at the market, and began to contribute to their barangay’s income.

**Insights or Lessons Learned on Offering Microfinance Schemes for Agriculture**

All MFIs involved in this study realize the importance of reaching out to the poor farmer and fisher sectors. But while risks are inherent to micro-lending, engaging in microfinance for agriculture entails even more risk, especially with uncontrollable factors like natural calamities, and market price movements. The income performance of the agri-microfinance operations of KOOL-NE and NWTF which grants purely crop loans pale in comparison to that of CBCS and IIMC which have more variety of products offered for the agriculture sectors. To provide some cushion for the MFI, therefore, the farmer or fisher-client needs to have other sources of income as buffer to guarantee repayment. A combination of income sources from agricultural and non-agricultural activities should allow the farmer and fisher to cover their regular expenses, including debt repayment.

The MFIs, on the other hand, can be more flexible with its policies and practices for agricultural microfinance. Repayments, for instance, may be scheduled whenever income is earned from either primary or secondary sources versus microfinance’s common scheme of weekly payment. In terms of loanable amounts, the MFIs may decide to confine its microfinance operations to PhP50,000 and below. The experience of CBCS, in particular, shows that its clients who were granted an amount above PhP50,000 comprised only five percent of their total borrowers. These types of clients may be referred to the regular lending operations of the MFI, and thus allow more borrowers and the poorer ones to benefit from the micro-lending activities. Once the loans are released, the MFIs need to follow through by conducting more intensive monitoring of agri-microfinance accounts.

It would also be helpful if the farmer and fisher practiced more business sense to ensure profitability of projects. Assistance from the government and private sectors from the production to marketing phases hereby becomes crucial. It may come in the form of policies or programs with such components as organizational development and management, training and networking.
While applicable in any lending activity, the borrower’s character or creditworthiness to receive an agri-microfinance loan is worth noting at this point, especially with the intricacies in agriculture. Value formation and organizing sessions in this case may be crucial interventions to increase the probability of success.

**Recommendations for Schemes and Policies to Support Microfinance for Agriculture**

In spite of the uniqueness of each sector reviewed in this study, recommendations or suggestions which may be useful for all are listed below:

1. **Feasible Schemes for Microfinance and Agriculture**

   Documenting the story of the four MFIs revealed a couple of schemes that may be appropriate in an agricultural setting, to wit:

   - Granting of small loanable amounts, say up to PhP50,000. While this amount was determined based on production need, the capacity of the borrowers to pay and policy of fund providers or wholesalers, among other considerations, the four MFIs have actually lent between PhP4,000 to about PhP30,000. This shows that the agricultural requirements of the target farmer and fisher sector are truly micro. Anything above the PhP50,000 level may be referred to the regular lending operations of the MFIs and other financial institutions.

   - While loans were granted mostly for working capital, financing of fixed capital such as a small motor boat and fishing gears for the fisher or a thresher for the farmer may be considered as long as these require small amounts.

   - Timely release of loans in light of the seasonal nature of agriculture. Granting of loans must coincide with the cropping cycle. If the release of the loans is delayed, the farmer does not have a choice but to borrow from the usual lenders who charge exorbitant interest rates.

   - Flexible terms of payment taking the harvest period in consideration. Among the crops, coconut has the shortest harvest period at 1.5 months while sugar is harvested in eight months. Instead of immediately requiring the weekly or monthly payment for the loan, it may be appropriate to grant a grace period before the more regular payments take effect, or altogether allow lump sum payment.
• Maintain the policy of unsecured loans since many of the clients are asset-less, except for cases where fixed assets secured through the project can be assigned to the lender until the loan is fully paid.

2. Adoption of Wider or Holistic Approaches

Agriculture concerns a wide range of activities from the time the farmer plants the crop or the fisher goes out into the sea until his or her produce reaches the consumer. Meantime, other income opportunities abound in the areas. The following are thus recommended:

• Consider financing the entire (or parts of) value chain or the stages from production to marketing.
• Support the livelihood activities of family members to increase household income. In this way, the farmer is not the only one getting financial assistance and providing for the family; rather, other household members can contribute as well.
• Finance intercropping or diversified farming. Benefits include maximization of the land, additional income for the farm household, and safety nets in case a calamity strikes.
• Explore other viable projects requiring financing. As the tree of life, the coconut plant offers vast potentials for products which require modest financing. Alternative livelihood for the fisher, on the other hand, will help protect the seas.


As mentioned earlier, adequate policies have been promulgated, but have yet to be better implemented. Additional meaningful policies are nonetheless still recommended to support agriculture and fisheries:

• Price regulation to protect both the producer and the consumer. Good prices of produce should translate to more income for the producer, thereby increasing his/her capacity to sufficiently expend all his/her costs pertaining to the household and the business, including payment of financial obligations.
• Lower cost of money for agriculture financing. This would keep the interest rates of the MFIs down, and consequently mean lower and more affordable interest rates passed on to microfinance clients.
• Strengthening of crop insurance. Insurance against natural calamities (which is characteristic of engaging in agricultural activities) would protect both the MFI-lender and the borrower. The lender incurs minimal loss from these uncontrollable
circumstances, and thus may be more encouraged to increase its exposure to the poor agricultural sectors. On the other hand, the borrower will not be burdened further from unpaid loans caused by natural occurrences.

4. Government and Private Sector Assistance for Programs

In view of the limited resources of the farmers and the fishers, assistance in programs is also sought not only from the government but from private organizations as well. These may include:

- Linking of farmer and fishers cooperatives or organizations to big suppliers to lower the prices of inputs and other supplies
- Marketing assistance through infrastructure development or improvement. Agricultural microfinance clients usually come from the interior barrios where roads, bridges and pathways are not in good condition. A better road network will facilitate the transport of the goods from these remote areas to the town center.
- Enhancement of technical skills to train and increase capacity of the farmers and the fishers in coming up with processed and value-added products, and eventually link them to markets. All products – rice, sugar, coconut and fish – have the potential to be processed into high-value goods with a ready market.
- More meaningful implementation of the policies and programs such as the Agri-Agra Law, the People’s Development Trust Fund to fund trainings, marketing assistance, research and extension activities. This should mean more funds, training and overall business opportunities for the microfinance client.

The four yet unique cases show that microfinance is presently working for various agricultural sectors, albeit with problems. It is, however, essential to discern how the opportunities offered by microfinance through the actual providers, the government as well as non-government organizations, can be tapped and maximized for the benefit of these poor sectors.
ANNEXES

ANNEX 1

Interview Guide

Basic Information

1. Description of the province area: location (e.g., kms away from main city/capital), distinct feature
2. Date of MFI/coop establishment
3. Purpose of organization
4. Area / scope of operations – geographic, products and services
5. Organizational structure, functions and responsibilities of each unit / department
6. No. of personnel
7. List of board members and key officers
8. Amount of capitalization; source and amount of funds for microfinance

MFI Management, Officers and Staff

1. Why and when ventured into microfinance/micro-lending?
2. What was management’s reading of the external and internal environment that led to the implementation of microfinance projects for the coconut farmers/rice farmers/sugar workers/fishers?
3. What are the existing policies or laws in support of or against microfinance for the sector?
4. What are the products, services and schemes of microfinance for the sector? Respective dates introduced or offered
5. Processes undertaken to design the microfinance products, services and schemes for the sector
6. Other preparations made to implement the microfinance program
7. What are the post-disbursement or implementation processes of the program
8. Any partners of MF. Describe arrangements or schemes (sample MOA). Status of partnerships.
9. How often are planning and assessment sessions conducted? Feedback mechanism to improve the offering of products and services for the sector. Key results of planning/assessment and feedback activities.
10. Performance of the agriculture microfinance operations since began or the last 3 years (see financial statements as primary reference)
   a. MFI level – outreach (no. of active clients), financial (profitability, liquidity, solvency)
   b. Client-beneficiary level – poverty alleviation and empowerment
   c. Problems / issues
   d. Plans and Directions

11. Lessons learned / insights

12. Recommendations
   a. Schemes for the sector
   b. Policies or laws that ought to be created to promote microfinance for the sector, and agriculture as a whole
   c. How can the microfinance industry help in the promotion of microfinance for the sector and agriculture as a whole

**Clients / Beneficiaries (note: get personal stories during KII)**

1. When and how was the microfinance program introduced? What were the activities undertaken to be able to become a participant of the program?
2. What are the pre- and post-disbursement processes of the program?
3. Status of loan
   - amount of loan
   - purpose and actual use
   - interest rate
   - term of loan
   - manner of payment
   - security
   - other terms and conditions

4. Problems / issues on program
5. How has the program helped your family? community? the sector especially in terms of poverty alleviation and empowerment
6. Insights and lessons learned, e.g., credit, credit discipline, savings and CBU, services for community
7. What are your other needs and the needs of the sector that may be provided by the MFI/coop?
8. Recommendations
   • Schemes for the sector
   • Policies or laws that ought to be created to promote microfinance for the sector, and agriculture as a whole
   • How can the microfinance industry help in the promotion of microfinance for the sector and agriculture as a whole
Other Stakeholders assisting the organization, e.g. government agencies or LGU, NGOs

1. Nature of assistance, partnership or other arrangements with the MFI/coop
2. Problems/issues faced by the MFI/coop in serving the client-farmers/fishers
3. Suggestions to resolve the issues
4. Schemes and policies that are relevant to push and promote microfinance for agriculture
ANNEX 2

Resolution no.009: Partnership between Rhema International Livelihood Foundation, Inc and Minadong Jol Coconut Farmers Association

MINUTES OF THE MEETING HELD IN ROOM 654 BEL-AIR APT., 1020 ROXAS BLVD., ERMITA MANILA 1000 PHILIPPINES AT 1:00 O’CLOCK P.M. 25TH DAY OF OCTOBER 2002.

WHEREAS, MINADONGJOL COCONUT FARMERS ASSOCIATION, represented by its Manager VICENTE P. BOREBOR, Chairman JOSE C. VILLANO, member ANDRES C. VILLANO agreed to be in partnership with RHEMA INTERNATIONAL LIVELIHOOD FOUNDATION INC. in operating, producing RHEMA GOLD COCONUT VIRGIN OIL, as its brand name of our coconut virgin oil produce in the Province of Camarines Sur including others organic products produce from coconut such as: organic vinegar, cooking oil that will bring Rhema Gold as the trade name of the same project;

WHEREAS, RHEMA INTERNATIONAL LIVELIHOOD FOUNDATION INC. in the presence of all the Board of Trustees unanimously approved that the partnership above mentioned and its role is to help and support market and guarantee equal responsibility, when it comes to liabilities 50/50 percent in sharing and 50 percent shared a like of the gain;

NOW THEREFORE, be it RESOLVED as it is hereby RESOLVED in session duly quorum that the partnership of RHEMA INTERNATIONAL LIVELIHOOD FOUNDATION INC. and MINADONGJOL COCONUT FARMERS ASSOCIATION be executed in full force,

(MINADONGJOL COCONUT FARMERS ASSOCIATION)
NAME OF THE BOARD OF DIRECTORS:
Vicente P. Borebor – Project Manager
Jose C. Villano – Chairman
Andres C. Villano – Member

RHEMA Intl. Livelihood Foundation Inc.
NAME OF THE BOARD OF DIRECTORS:
Mary Lou B. Estrada – President
Israel O. Nepes – Chairman of the Board
Annabelle B. Joyno – Secretary

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES
City of Manila

SUBSCRIBED AND SWORN before me in Manila City Philippines on ______ day of ______, 2006

[Signature]

ATTY. DOLORS HOOD-JANER
JURIS OR PUBLIC

[License No.]

[Bar Association]

[Date Recorded]
ANNEX 3a

MJ Resolution no.02-2006: Deduction of Monthly Amortization from Deposit Account

MINUTES OF THE SPECIAL MEETING OF THE CENTER OFFICERS
OF VIRGIN COCONUT OIL PROCESSING PROJECT OF MINADOROOL
COCONUT FARMERS AND LAND REFORM BENEFICIARIES ASSOCIATION,
INC, MINADOROOL, SAGAY, CAM. SUR HELD AT SAGAY HALL
ON MAY 16, 2006.

PRESENTE:

JOHN C. VILLANO
JOAN TRAZOR
JONAH LISA V. AVILA
SALVATION R. DE LOS SANTOS
VINCENT P. ROSENO

= Center Chief
= Assistant Center Chief
= Center Secretary
= Center Treasurer
= Project Manager

ABSENT: None

RESOLUTION No. 02-2006

A RESOLUTION INFORMING THE COOP. BANK OF CAM. SUR, NAGA CITY
BRANCH, NAGA CITY OF THE ACTION OF THE MEMBER BENEFICIARIES
OF VIRGIN COCONUT OIL PROCESSING PROJECT/ASSOCIATION ACCEPTING
THE LIABILITY TO PAY INDIVIDUALLY THE AMOUNT OF LOAN INCLUDING
INTEREST THEREON IF IN CASE THE FAILURES OF THE PROJECT.

On motion presented by Jonah Lisa V. Avila and unanimously
seconded the following resolution was adopted.

RESOLVED, as it is hereby resolved, to inform the Coop. Bank
of Cam. Sur., Naga City Branch, Naga City of the action of the
individual member beneficiaries of the Virgin Coconut Oil
Processing Project/Association accepting the liability to pay
the amount of Loan including interest, if in case the project
will failed. Likewise, the members have mutually and severally
accepting any liability therefor.

RESOLVED FURTHER, that the direct member beneficiaries of
the Virgin Coconut Oil Processing Project has no further objection.

RESOLVED FINALLY, let copies of this resolution be forwarded
to Coop. Bank of Cam. Sur., Naga City Branch, Naga City for
information and guidance.

UNANIMOUSLY APPROVED: May 16, 2006.

"WE HEREBY CERTIFY to the correctness of the foregoing
resolution."

JOHN C. VILLANO
Asst. Center Chief

SALVATION R. DE LOS SANTOS
Center Treasurer

VINCENT P. ROSENO
Project Manager

JONAH LISA V. AVILA
Center Secretary

APPROVED:

JOHN C. VILLANO
Center Chief,
Date: 12/06

[Signature]
ANNEX 36

MJ Resolution no.03-2006: Liability of Individual Members to Pay Loan in Case of Failure of Project

RESOLUTION No. 03-2006

A RESOLUTION AUTHORIZING THE COOP. BANK OF CAM. SUR., NAGA CITY BRANCH, NAGA CITY TO DEDUCT A MONTHLY LOAN ASSOCIATION OF THE VIRGIN COCONUT OIL PROCESSING PROJECT ASSOCIATION FROM THE DEPOSIT ACCOUNT OF THE PROJECT.

On motion presented by Salveo J. de los Santos and unanimously seconded the following resolution was adopted.

RESOLVED, as it is hereby resolved, to authorized the Coop. Bank of Cam. Sur., Naga City Branch, Naga City to deduct a corresponding monthly Loan Association computed on the actual releases of Loan to Virgin Coconut Oil Processing Plant/Association, Mindanao, Baguio, Cam. Sur until the Loan is been fully paid.

RESOLVED FURTHER, that the computed Monthly Loan Association shall be deducted from the Bank Account of Virgin Coconut Oil Processing Project/Association. Likewise, the Center Chief and/or the Center Treasurer shall be furnished with the required documents relative thereto.

RESOLVED FINALLY, let copies of this resolution be forwarded to Coop. Bank of Cam. Sur., Naga City Branch, Naga City for proper information, reference and guidance.

UNANIMOUSLY APPROVED May 16, 2006.

"We hereby certify to the correctness of the foregoing resolution."

[Signature]
Center Treasurer

[Signature]
Project Manager

[Signature]
Center Secretary

[Signature]
Center Chief

[Date] 7/7/06
ACKNOWLEDGEMENT OF DEBT

KNOW ALL MEN BY THESE PRESENTS:

I, ______________________ of legal age, Filipino, with postal address at Bgy.
Mercedes, Camarines Norte, witnesseth;

That I am indebted in the sum of
(PH₱ ____ ) Philippine Currency, to INTER-ISLAND MANAGEMENT COUNCIL INC.
SMALL ENTERPRISE ECONOMIC DEVELOPMENT - MICRO FINANCE PROJECT (SEED
PROJECT), a duly registered people's organization with postal address at Bgy.
Quinsapaguan, Mercedes, Camarines Norte;

That I shall pay the sum of
(PH₱ ____ ) unto the said organization within a period of ____ months from the
execution hereof, with interest rate of 1.5 percent per month.

That in the event that I failed to pay the aforesaid amount of
(PH₱ ____ ) to IMC-SEED Project, I hereby authorize IMC to file legal action against me
and that all expenses will be charged to my account.

IN WITNESS WHEREOF, I have heretofore set my hand this ____ day of ________, 2007,
at Quinsapaguan, Mercedes, Camarines Norte.


Debtor
(Signature Over Printed Name)

SIGNED IN THE PRESENCE OF:

1. ______________________ 2. ______________________

REPUBLIC OF THE PHILIPPINES )
PROVINCE OF CAMARINES NORTE ) S.S.
MUNICIPALITY OF DAET )

SUBSCRIBED AND SWORN to before me this ____ day of ________, 2007,
Debtor exhibiting his/her Community Tax Certificate No. ________ issued at
on 2007.

DOC. NO. __________
PAGE NO. __________
BOOK NO. __________
SERIES OF __________


Tangthirasunan, Thirapong. 2007. Microfinance, Small Scale Fisheries and International Fisheries Trade in Selected APRACA-Member Countries. Thailand: Asia-Pacific Rural and Agricultural Credit Association (APRACA).