

Understanding Local Farmers' Perceptions for their Farm Financing using Loans from Informal Creditors

Andy James D. Wong¹, Arbaisa M. Bulay², Monsour A. Pelmin³,

¹Bioseed Research Philippines Inc., General Santos City

²General Santos City

³Mindanao State University, General Santos City

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ABSTRACT

In this study, we will be going to analyze the perception of our local farmers associated with this financing through the informal creditors, lenders and financiers. This qualitative research through one-on-one interviews used an adopted survey from the research study of Ms. Lolita Poliquit entitled "Accessibility of Rural Credit Among Small Farmers in the Philippines" and also used open-ended questions for other important details and real problems they encountered.

The local farmers in the specifically identified areas for this study will capture firsthand the reasons, the anticipated risks, and their future plans that are associated with these informal financiers. This will help us understand the farmers' point of view on why this scheme still persists and why they are still engaging in this kind of scheme despite the efforts of our government to help our small-scale farmers. The researchers will be limited only by the number of respondents in General Santos City and Alabel, Sarangani Province, who are currently engaged with these informal financiers.

The study revealed that despite 100% of the respondents trying to take a loan from government banks, all of the applications were denied due to lacking documents and collateral that are needed by the banks. This scenario leads our local farmers to take credit from the informal creditors, specifically their buyers or the middlemen. They grabbed this kind of scheme due to easy application, fast processing, and no needed collateral despite the perceived risks that their crops will be bought at a lower standard market price, high interest rates, and most of the time at a discounted price.

The study highlights the gap between the implementation of government projects and aid to the local and small farmers. Institutional and government banks lack understanding of the real situation of our respondents.

Keywords: Small-scale Farmers, Informal Creditors, Financing, Creditors, Buyers

INTRODUCTION

In any part of the world, especially on the developing countries, agriculture is one of the major industries that helps maintain and activates local economy (Chowdhury, 2015). The agricultural sector in the Philippines, contributed 8.9% to the Gross Domestic Product (GDP) of the in 2022 and provided an employment share of 24.2% in 2021, (Capacio et al., 2021). A (PSA Press Release, 2023), the data indicated that fisherfolk and farmers residing in the rural areas have the highest poverty incidence among the basic sectors in the Philippines at 30.6% and 30.0%, respectively. Thus, the agricultural sector is critical in the attainment of Sustainable Goal 2 (SDG 2), which is zero poverty, and its targets of doubling the agricultural productivity and incomes of small-scale producers (target 2.3) and ensuring sustainable production systems (target 2.4) by 2030 (UNICEF Data, 2023).

Despite the government intervention, such as the Agriculture and Fisheries Modernization Act, the problem of low productivity still persists in this sector. Small Farmers and Fisherfolks (SFF) need loans and credits for their farm operations and modernization and also liquid capital for sustainable agricultural technologies (Arhin et al., 2023). Moreover, farmers need these loans for their daily needs, that is, to sustain themselves between their income and expenses, since they are experiencing low yield on their crops (Balana et al., 2022). Thus, financing through credits or loan is the solution of small-scale farmers for financing and meet their family needs, (Teye & Quarshie, 2022).

Small-scale farmers in SOCCSKSARGEN especially in the locality of this study, Gensan and Alabel in Sarangani Province, had issue in providing for their financing needs for their crops. A significant decrease in productivity, high production costs, and low government support for the sector, among other things, have led to a crisis in the agriculture sector in this region. The poverty situation in the rural areas by the agricultural sector had been worsened by uneven distribution of resources and the impartial and lacking implementation of government projects for this sector. Agricultural production had great potential in Region XII (SOCCSARGEN) given its natural resources and endowment. It is recognized by NEDA RXII that the region is one of the top producers of high-value crops in the country. This contributes to the region's GRDP, but a decrease in its contribution to the regional output, from 43.6% in 2004 down to 41.5% in 2009 (Balogbog et al., 2019). 32% of the farmers earn between P6,000 and P10,000 per month only, which means that farming brings a small income to their families that is not enough to sustain or meet their family needs. According to a June 8, 2018 report of The Philippine Star quoting Socioeconomic Planning Secretary Ernesto Pernia, a family of five needs at least P42,000 per month to survive; this just implies that many farmers are still living on the poverty line. From the PSA data, the average monthly household expenses are at P13,000 per month, which small farmers cannot afford. This forces them to look for other sources of funds, which often include taking credits from high-interest creditors. (Balogbog et al., 2019). The high cost of farm inputs, from seeds, fertilizers, and chemicals to labor payments, is the main reason that farmers in this city and province had a 2nd party financier that lent money or financed farmers for their farming with a considerable interest rate. Most Filipino farmers are beyond the poverty level, as discussed in the above-cited research paper (Balogbog et al., 2019).

Small scale farmers had limited access to loans and credits for their financing due to the uncertainty of lenders about the borrower's ability and willingness to pay. This is due to the problem in enforcement and information from both sides. Aside from these established issues relating to the lender-borrower relationship, lenders must also consider in making risk calculations the uncertainty of nature (e.g., weather, pests, hydrology) and the lack of acceptable crop insurance. In the Philippines, the small land size held by farmers, which affects their ability to reach a viable economic scale (Capacio et al., 2021),

The same reasons of risks and costs were cited by the banks why they have a limited lending portfolio in agriculture. The agriculture credit gap is the difference between the credit requirements of the priority commodities and the financing supplied by banks. The banks are instead willing to pay the penalties as part of their requirements to establish at least 25% of their portfolio to Agrarian Reform Beneficiaries (ARBs) and agriculture; this is true when the Agricultural Credit Policy Council (ACPC) in the Philippines defines a gap of P366.6 billion in 2014. The banks absorb the P10.3 billion in penalties despite of the legislated laws in the country. Although the law requires a 25% minimum of bank portfolios to be extended as loans to agriculture and fisheries credit (of which a minimum of 10% is to ARBs), in 2019, a 1.1% in loans to ARB and for the rest of agricultural industry is at 11% were the averaged bank portfolio, (Capacio et al., 2021). As a result of this credit rationing, small-scale farmers tend to borrow from the informal creditors. This led to small-scale farmers to grab the offer of informal creditors since it offers flexible repayment, adjustable to non-collateral requirements, accessibility and timeliness, (Bayudan-Dacuycuy et al., 2020).

The support of the government, especially in the line of credit or borrowing, only benefited those who own their farmlands, but those who are renting or tenants cannot apply for or avail themselves of the said government programs, as firstly it requires land titles, which they don't have.

Objectives of the Study

The researchers will try to understand the perception of the respondents regarding the credit scheme with the informal creditor and the associated risks of this scheme.

Specifically, this research was conducted to explore the perceived associated risks on informal financiers to small farmers in General Santos City and in Alabel, Sarangani Province. The aims were to:

- a. Established the demographics of the respondents
- b. What are the credit financing scheme the respondents avail
- c. The respondent's awareness on the financial institutions and their reasons on why they don't engage in these financial institutions
- d. And finally, to established the perceived risks by the respondents of this informal financiers from the small-scale farmers point of view

METHODOLOGY

Sampling Procedure

The researcher selected 10 respondents in the said area of studies; 5 from Alabel Sarangani Province and 5 in General Santos City with the following criteria:

- The respondents are engaged in an informal creditors financing or loan for cropping purposes.
- He/She may own the farm area, renter, or tenants, but is the primary individual that toils or farms the land.
- The researcher must conduct a recorded one-on-one interview with the respondents.
- The interview questionnaire is adopted from the study of Ms.Lolita Poliquit on the "Accessibility of Rural Credit Among Small Farmers in the Philippines" from Massey University Palmerston North, New Zealand (Poliquit, 2006). See Appendix 1 and 2.

Data Gathering Procedure

The interview method for the identified farmers will start with a due diligence procedure. Permission from the respondents must be established through verbal confirmation to allow us to conduct the interview. Profiling will be done also to show demographics of the respondents. A one-on-one interview will be done by the researchers with individual respondents using the adopted questionnaire, and they may add open-ended questions to dig deeper into the perception of the respondents regarding this scheme.

Individual form will be filled-up and researchers will take notes on important information during the course of interview.

After the interview, researchers will tabulate and plot all gathered information in excel. After, a thematic analysis will be performed in the questions categories establishing patterns and themes from the responses of the respondents.

Researchers use the frequency and percentage distribution to analyze the quantitative data gathered from the respondents. This statistical tool was used to established the demographic data, financing awareness, the respondent's awareness regarding the formal institutions in their area, established the reasons and the gap on the respondent's attitude towards formal institutions against the informal creditors and its accessibility and the respondents perceived attitude towards informal creditors.

RESULTS AND DISCUSSIONS

After the qualitative interview done by the researchers in the locality of the Municipality of Alabel, Sarangani Province 5 farmers and for the General Santos City with 5 farmers below are the results;

Demographic information of the farmers/respondents

Table 1: Demographic Profile of Respondents

Variable	Categories	Frequency	Percentage
Age Group	30-39	0	
	40-49	2	20%
	50-59	1	10%
	60-69	4	40%
	70 and above	3	30%
Gender	Male	10	100%
	Female	0	0%
	Prefer not to say	0	0%
Civil Status	Single	0	0%
	Married	10	100%
	Widowed	0	0%
	Separated	0	0%
Educational Attainment	High school graduate or below	7	70%
	College undergraduate	3	30%
	College graduate	0	0%
	Postgraduate	0	0%
Employment Status	Employed (full-time)	0	0%
	Employed (part-time)	1	10%
	Self-employed	0	0%
	Unemployed	9	90%
	Retired	0	0%
Years in Farming	20-29	3	30%
	30-39	3	30%
	40-49	4	40%
	50 and up	0	0%
Crops Planted	Palay	10	100%
	Corn	5	50%
	Banana	5	50%
	Others	0	0%
Sources of Income	Farming - Crops	10	100%
	Farming - Livestock	3	30%
	Farming - Labor	5	50%
	Others	1	10%

In Table 1, the respondents' demographic profile is shown. For the age group, it was established that 70% of the respondents fall in the 60-and-up age category and no respondents had an age of below 40. This indicates that this industry is now aging, and no significant younger generations are into farming based on this study.

The gender category shows 100% of farmers are male, but it is expected that their wives are helping them on the farms. All of the respondents are married, and 70% are less educated (high school graduate or below). For the employment status, 90% are unemployed and only focused on farming. It is also indicated in the demographic table that the respondents start farming since their teens; they are already more than 20 years and up in this industry. For the crops planted, 100% of the respondents have planted palay, and 50% each also tried planting corn and banana. 100% of the respondents depend on their crops, while 50% also engage in farming labor and 30% in livestock or backyard animals.

Types of Financing Awareness

Table 2. Type of Financing and Sources Availled by the Respondents

1. How do you finance your farming?	TALLY	Percentage
Informal creditors	10	100%
Financial institutions	0	0%
TOTAL	10	
2. Sources of creditors	TALLY	
Banks	0	0%
Friends	0	0%
Neighbours	0	0%
Moneylenders	0	0%
Others (Please specify): Buyers/Dealers	10	100%
Not Applicable	0	0%
TOTAL	10	

Table 2 represents the response of the respondents regarding their availment of loans to finance their farming. 100% of the respondents availed loans in the form of informal creditors, and this was availed through their buyers or dealers.

Financial Institutions Accessibility and Awareness

Table 3. Financial Institutions Accessibility and Respondents Awareness

3. Nearest distance of banks in your area	TALLY	Percentage
1-5 kms	5	50%
6-10 kms	5	50%
11-15 kms	0	0%
16-20 kms	0	0%
More than 20 kms	0	0%
Don't know	0	0%
TOTAL	10	
4. Are you aware of financial institutions that offer financing in your area	TALLY	Percentage
Yes	10	100%
No		0%
TOTAL	10	
5. Did you apply for financing loan in the financial institutions? Is it successful?	TALLY	TALLY
Yes	10	
No		10
TOTAL	10	
6. Are you still willing to be visited again if I want to come back to have a further conversation with you? When is a convenient time?	TALLY	Percentage
Yes		0%
No	10	100%
TOTAL	10	

Table 3, shows the respondents response regarding the accessibility and their awareness of the financial institutions in the locality. 100% of the respondents are aware that there is a presence of a financial institution in their area, and the distance is within the range of 10 km. All of the respondents applied for loans for their financing in these financial institutions, but all of their applications were not successful. When asked if they were still interested in applying for a financing loan at the said financial institutions, they all said, “No.”

Respondent’s Key Informants Interview (KII)

During the questionnaire interview to the respondents, when asked what are the factors in choosing creditors.

“Madali lng I access at hindi kana pahihirapan pa”, (Respondents A-1)

“Paspas ug walay kinahanglan collateral”, (Respondents A-2)

“Available when needed specially on my family needs”, (Respondents A-3)

“Walay kinahanglan collateral ug gamay lang ang mga requirements”, (Respondents A-4)

“Dili na mangita ug collateral”, (Respondents A-5)

Similarly, when asked what are their problems and difficulties in applying financing loan in banks;

“Documentation, collateral”, (Respondents B-6 and B-9)

“Collateral sa bangko”, (Respondents B-7)

“Processing sa documents”, (Respondents B-8 and B-10)

Lastly, when asked about their perceived risks in engaging in these informal creditors to their family living status, they mostly provided same meaning answers;

“Makalubong sa utang”, (Respondents A-1 and B-7)

“Nubo ang presyo sa palit, dili makapa skwela ug mga anak”, (Respondents A-2 and B-6)

“Gamay ug presyo, ug diskwentuhan pa gyud maong gamay na lng among kita”, (Respondents A-3)

“Dili na gyud ma improve kung dili maningkamot ang mga kabataan”, (Respondents A-5)

“Makalubong sa utang, mag patong-patong na lng”, (Respondents B-8)

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that government support through financial institutions is already known to the small farmers, especially in the rural areas, but access to these loans must be made available and easy for local farmers. There is a detachment in this area of government financial institutions, which implements government agriculture projects. This research paper established that no respondents were approved for the government financing scheme. Due to these lengthy requirements and collaterals that they cannot provide, small/local farmers opt tot to avail themselves of informal credits or loans from the informal creditors, especially their crop buyers or middlemen. Despite being aware of the perceived risk in these engagements, they still engage in this informal creditor due to their experience of having been denied in their loan processes, especially in the government banks.

It is recommended further to conduct an in-depth study regarding the embedded issues and concerns of the formal creditors and financial institutions regarding their loan's requirements and structure.

The researchers also recommend that the local agriculture team intervene or mediate between farmers' cooperatives and the financial institutions to serve as collateral for the small farmers to avail themselves of the programs.

For the local agriculture team to strengthen cooperatives, monitor the operations of this cooperative and then provide support through mechanization, post-harvest facilities, free farm inputs, credit programs, and other government projects for the agriculture sector. These implementations must be closely monitored by local agriculture departments to avoid wasted resources.

For the local agriculture team to conduct educational programs and seminars for the organizations and cooperatives for farmers. This is also to convey projects and programs from the government.

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APPENDIX

APPENDIX I

INSTITUTE OF NATURAL RESOURCES

MASSEY UNIVERSITY

ACCESSIBILITY OF RURAL CREDIT AMONG SMALL FARMERS IN THE PHILIPPINES

SURVEY QUESTIONNAIRE FOR FARMERS

A. RESPONDENT PROFILE/CHARACTERISTICS

Area or Name of Village: _____

Sex : Male ____ Female _____

Age : ____ **Civil Status :** _____

Highest Educational Attainment:

1) No formal schooling

2) Primary level

3) High School level

4) High School Graduate

5) College Level

6) Vocational

7) Others (specify) _____

Number of Household Members: _____

Proportions of income from various sources:

1) Farm (specify)

a. Crops _____

b. Livestock _____

c. Farm labourer _____

8. Includes helpers (katulong) or other non-relatives who share a common arrangement in the preparation and consumption of food.

2) Non-Farm

Income from other agricultural activities

a. Rice/corn milling ()

b. Rental/labor for pre/post harvest facilities ()

c. Others (please specify) _____

Income from non-agricultural activities

a. Small business (i.e. sari-sari store) ()

b. Teaching ()

c. Government employee ()

d. Private employee ()

e. Remittances from abroad ()

f. Others (please specify) _____

Average Annual Household Income:

a. P 10,000 and below ()

b. P 10,001 to P25,000 ()

c. P 25,001 to P50,000 ()

d. P 50,001 to P100,000 ()

e. P100,001 and above ()

Farm Tenurial Status:

a. Owner ()

b. Share Tenant ()

c. Lease Holder ()

d. Others (please specify) _____

Farm Size (in hectares):

a. Less than 0.5 hectare ()

b. 0.5 ha. – 1.0 ha. ()

c. More than 1.0 ha. ()

How many years in farming? _____

B. ACCESS TO CREDIT

1. How do you finance your farming? _____

2. In what ways have you accessed credit over the past 5 years?

(Can be more than one)

a) friends ()

b) relatives ()

c) neighbors ()

d) banks ()

e) moneylenders ()

f) others (please specify) _____

3. Why did you prefer these sources? _____

4. When did you really need to borrow? _____

5. What is the distance of the nearest bank in your area?

a) 1 – 5 kilometres ()

b) 6 – 10 kilometres ()

c) 11 – 15 kilometres ()

d) 16 – 20 kilometres ()

e) More than 20 kilometres ()

f) Don't know ()

6. What is the name of the bank? _____

7. Are you aware of credit programs/facilities in your place? Do you know how to avail yourself of it?

a) Yes __ **What are these?** _____

How far? _____

b) No ____

8. Did you apply for credit to finance your farm?

a) Yes __ **What for** _____

b) No __ **Why not?** _____

a) Had enough savings/earnings from other sources()

b) Afraid to borrow ()

c) Interest rates were not affordable ()

d) Too many required documents to submit ()

e) Uncertainty about repaying the loan ()

f) Others (please specify) _____

9. If you applied for credit, was your application successful?

a) Yes _____ b) No _____

10. What are the reasons that your application was not successful?

a) Insufficient income/assets ()

b) Incurred previous loan (bad credit) ()

c) Had no collateral ()

d) Had difficulty in providing required documents ()

e) Others (please specify) _____

11. Was the amount you got sufficient?

a) Yes _____ b) No _____ Explain _____

12. Do you have collateralable assets?

a) Yes _____ b) No _____

13. If yes, what form of collateral assets do you have?

a) Land (residential and/or agricultural) ()

b) House ()

c) Vehicle ()

d) Agricultural equipment (e.g. tractor, sheller) ()

e) Furniture and Fixtures ()

f) Others (please specify) _____

14. Are there lending organisations in this area other than the one you got the credit from?

a) Yes _____ What are these? _____

b) No _____

15. Are you still willing to be visited again if I want to come back to have a further conversation with you? When is a convenient time?

APPENDIX II

Institute of Natural Resources, Massey University

Accessibility of Rural Credit Among Small Farmers in the Philippines

Guideline for in-Depth Interviews With Farmers

- What form of available credit services in your area do you prefer? Why?

- How did you know about the credit facilities in your area?

- What are the factors you consider in choosing your creditor?

- What are the problems or difficulties you encountered when applying for and/or obtaining credit?

- What are your expectations among those credit programs in your area?

- Do you have any suggestions/recommendations in order to improve your accessibility to credit in your area?

- What would be your perceived risks in engaging in these informal creditors to finance your farming and your family needs to your family living status?

