

Impediments to Microfinancing of Smallholder Forestry on Leyte Island, the Philippines

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ABSTRACT

This paper discusses the status, impediments and prospects for microfinancing of smallholder forestry on Leyte Island, the Philippines. Surveys were conducted to determine the availability of microfinancing as well as the interest of landholders and finance providers in microfinancing. Representatives from the Department of Environment and Natural Resources (DENR) and Department of Agriculture (DA) were also interviewed with regard to their views regarding the prospects of microfinancing. The study was designed to provide information to support policy-makers and planners in devising incentive packages for smallholder forestry. It was found that there is limited microfinancing available for forestry on Leyte Island. The arrangement is generally for projects of DENR whereby participants are given financial support to develop a particular area or carry out a particular forestry activity. The majority of the respondents who established their own tree farms did not receive any external support from the government or any other private donors. A few, however, benefited from the seedlings distributed free by DENR and DA. On the other hand, 53% of the respondents (most with relatively low incomes) signified interest in microfinancing for forestry if ever it becomes available, subject to the acceptability of loan arrangements. According to banks, they make loans available to any borrower regardless of the intended use of the money as long as borrowers provide collateral or a guarantor.

Keywords: tree farmers, community-based forest management, credit institutions, collateral, guarantor.

INTRODUCTION

In the last 20 years, the Philippine government through the Department of Environment and Natural Resources, initiated bold moves to raise forest plantations and promote tree growing in the countryside. This was made possible through the National Forestation Program (NFP) in the mid-80s. The Asian Development Bank and World Bank funded most of these programs through loans and grants. Apparently, it was a response to the crises the country had experienced in the forestry sector such as the monotonic decline of the Philippines' important forest resources and the

shortages of forest goods and services. In addition, efforts to raise forest plantations were undertaken to meet the growing demand for timber, fuelwood and other forest products while restoring the balance in degraded watersheds.

The adoption of tree farming technology has already spread across a number of areas on Leyte Island. It is apparent, however, that plantings have only been carried out on a small-scale level. This is because most farmers lack resources, especially finances. It is clear that income status of smallholders has unfavourably influenced tree farming operations especially in purchasing planting materials and payment for labour for the establishment and maintenance of tree plantations. While smallholder farmers recognise the significant role that plantations play, they are more apt to respond to their immediate basic daily needs for food rather than placing priority on environmental concerns such as tree planting.

In the Philippines, the agricultural sector has developed appropriate mechanisms for the delivery of credit for crop production to farmers. Bank officers are experienced in processing such credit, but the same is not true for tree growing (FAO, 1993). This is because tree growing is a relatively long-term venture, with relatively low profitability and substantial risk (Harrison *et al.*, 2005). Due to these features, credit policies that govern forestry and tree growing could differ from those adopted for crop production. In order to promote tree growing by small-scale farmers, it is essential to devise a package of incentives, in which forestry microfinancing plays a crucial role.

There have been some instances of extending microfinance for forestry in the Philippines, particularly in Mindanao, but the arrangement has never been replicated in Leyte. The situation in Mindanao may be different but lessons from such experiences can be used as basis for developing policies for forestry in Leyte.

The objectives of the research reported here have been to examine the status of and prospects for microfinancing smallholder forestry on Leyte Island, and to present and analyse the various impediments and interest of tree farmers in microfinancing. To examine these aspects, survey data were collected from smallholders, bankers and government agencies. The next section describes the research method. Some characteristics of the study areas are then presented, followed by findings of the surveys. Finally, conclusions are drawn for forest policy on Leyte Island.

TYPES AND SOURCES OF FINANCE AVAILABLE TO LEYTE SMALLHOLDERS

Credit sources by smallholders include banks in local towns and the non-institutional credit including middlemen, friends, stores patronised, private lenders and landlords (Duquiatan, 1981). Most farmers prefer to borrow from non-institutional sources because credit is immediately obtainable with less or no paperwork. The arrangement for repayments varies, e.g. cash or commodity repayments (Canciller, 1995).

Smallholders have limited access to institutional sources of credit. According to Armenia (1995), credit institutions are biased towards borrowers who have higher incomes and capacity to pay. In fact, banks require collateral or a guarantor before credit is provided. According to Groetschel *et al.* (2001), families in Leyte rarely receive loans from banks or credit cooperatives, because they would have to offer

collateral or have a large amount of savings and security. Farmers are also discouraged from availing of institutional credit because of limited educational attainment, slow release of funds and less exposure to paperwork and banking procedures (Mecina, 1980). Venn *et al.* (2000) also observed that limited knowledge about accounting, financial analysis and banking procedures inhibits the access of smallholders to credit.

The availability of microfinance for smallholder forestry does not guarantee forestry uptake by smallholders. Arnold (1997) observed that one third of farmers participating in the modified social forestry program of PICOP in 1981 took out a loan although they planted only small areas or had no need of a loan because establishment could be covered by farmers' own labour and the market provided by PICOP was considered by them as already a sufficient incentive. Arnold further cited that the requirement to use their land as collateral in the financing arrangement constrained some farmers from participation.

Laran (1997) found that farmers in Leyte and Southern Leyte were motivated to grow bagalunga (*Melia dubia*) by price stimulus, current values and value expectations from the trees they grow. According to Landell-Mills (1999), the emergence of new markets for products associated with improved management causes leverage in private investment in forestry. On the other hand, Magacale-Macandog *et al.* (1998) reported that tree farmers in Claveria, Misamis Oriental, The Philippines, borrow money from private traders and use young trees as their collateral, and when the loan reaches maturity, the tree is cut and sold to pay the debt.

CASE STUDY AREA AND RESEARCH METHODOLOGY

Survey data were collected from the two provinces of Leyte and Southern Leyte. Leyte Province in the north of the island comprises 43 municipalities and has two major cities, namely Tacloban (the capital) and Ormoc City. Southern Leyte has 18 municipalities; the capital is Maasin City. Survey data were collected from three types of respondents, namely tree farmers, bankers and officers of government agencies (the Department of Environment and Natural Resources and the Department of Agriculture).

Tree farmers were selected for personal interviews from a list of registered tree farms from three administrative jurisdictions of the Community and Environment and Natural Resources Offices (CENROs) of the DENR, over five municipalities in the two provinces (Table 1).

Table 1. Provinces and municipalities for the tree farmer sample

CENR Office	Province	Municipalities
CENRO Maasin	Southern Leyte	Maasin, Macrohon
CENRO Tacloban	Leyte	Babatngon
CENRO Albuera	Leyte	Merida

Maasin municipality has a land area of 11,573 ha and is devoted to agricultural crops including coconuts, abaca, rice, corn, cacao, legumes and vegetables. Smallholder tree planting in the area has been influenced by many forestry projects

implemented by DENR in the past, including contract reforestation, Forest Land Management Agreement and Community-Based Forest Management (CBFM)¹. CENRO and PENRO offices of DENR are located in this municipality.

The municipality of Macrohon has a land area of 12,640 ha, and is predominantly agricultural. Many of the residents are farmers and fishermen. Engagement of people in private tree planting was influenced by the proximity of Macrohon to Maasin and the various reforestation projects implemented in the area.

Tacloban is the centre of trade and commerce of Leyte. The provincial and regional offices of DENR are located in Tacloban, which has led to strong support for forestry. Forestry projects implemented in this area include reforestation, CBFM, private tree farms and industrial tree plantations, most of which are located within a few kilometres of the city. The total land area of Tacloban is 20,172 ha.

The municipality of Babatngon has an area of 13,870 ha, of which 50.4% is classified as agricultural land. People in the area have a high livelihood dependence on farming and fishing. Being near to Tacloban, some of the pilot projects of DENR are located in Babatngon.

The municipality of Merida with a total area 11,108 ha, is classified as a medium town in the hierarchy of settlements of the province of Leyte. The main sources of income are farming and fishing. Smallholder tree plantings in Merida may be influenced by the conversion of sugarcane plantations to tree farms. Rehabilitation activities and tree planting in one of Merida's watersheds were undertaken by DENR and the Local Government Unit (Comprehensive Land-Use Plan of Merida, Leyte 2001-2010).

Thirty tree farmers² were selected randomly from each of the five CENROs. All were registered with the DENR except in CENRO Albuera where some non-registered tree farmers were selected because there were fewer than 30 registered tree farms.

Ten bankers were selected purposively – representing rural, commercial and government-owned banks – and were interviewed to determine whether they make loans available for tree farming purposes. These included the First Interstate Bank, Metro Bank, Development Bank of the Philippines, Allied Bank, Philippine National Bank, Landbank of the Philippines, Rural Bank of Albuera, Rural Bank of Maasin, Green Bank of Caraga, and Southern Leyte Cooperative Bank. Representatives of the DENR were interviewed concerning the assistance they provide to tree farmers, particularly credit assistance. Their opinions were deemed necessary to strengthen the information gathered from tree farmers. A workshop was convened, attended by respondents of the three groups, to validate the information gathered from interviews and to discuss issues related to microfinancing for forestry.

¹ Almost all forestry assistance programs have now been subsumed under the CBFM program, which was commenced in 1995, and which provides assistance to both individual property right (IPR) and common property plantings.

² Tree farms must be registered with the DENR to obtain permission to harvest and sell timber..

FINDINGS FROM THE SMALLHOLDER SURVEY

The farm survey revealed that farmers received limited support from the government. Only 28% of the respondents obtained planting materials (mostly seedlings rather than seeds) from DENR or, in three cases, from the DA (Table 2). Generally, these were the tree farmers with greater access to information on the government's programs, especially those involved in DENR projects. It is also interesting to note that three respondents reported receiving financial assistance from the government for both tree farm establishment and maintenance. What is not clear here is the tenure of land where these trees were planted. It is a common observation in rural areas in the Philippines, particularly on the island of Leyte, that possession and occupancy becomes a basis of land ownership by rural people. A good example is the kaingin farms within public lands which, from the point of view of the cultivators, are owned by them despite of the absence of legal documents. Therefore, the farmers' claim may be true if the parcels of land planted with trees are within timberland and the area is covered by a DENR project. Most of the trees grown by farmers were exotic species including mahogany, gmelina and ipil-ipil, though there were some plantings of native species and in particular narra and molave.

Table 2. Sources of finance of current tree farm activities

Finance source	Purpose of finance					
	Planting materials		Establishment		Maintenance	
	Frequency	Relative frequency (%)	Frequency	Relative frequency (%)	Frequency	Relative frequency (%)
Self	53	58.4	85	94.4	86	95.6
Government	25	28.1	2	2.2	2	2.2
Self and government	11	12.4	1	1.1	1	1.1
Landowner	1		2	2.2	1	1.1
Total	90	100.0	90	100.0	90	100.0

Intention to Grow Trees and Sources of Finance

Of the 70 farmers who expressed interest in growing more trees in the future, 81% reported that they would be using their own money in financing future tree growing activities (Table 3). Twelve percent of the respondents also identified the government as the source of finance. This indicates the need for microfinancing smallholder forestry. Respondents explained that they will be happy to receive any form of assistance, even the planting materials only, to help them reduce the cost of establishing a tree farm.

Table 3. Farmers' intention to grow trees in the future and anticipated sources of finance for future tree growing

Source of finance	Relative frequency (%)
Self	81.2
Government	11.6
Self and government	7.2

Interest in Microfinancing for Smallholder Forestry

Farmers were asked if they would take microfinance for forestry were it available. Fifty three percent of the respondents said they would obtain loans subject to satisfaction with repayment arrangements (Table 4). Cross tabulation indicates that the majority of those who are interested in microfinancing belong to the lower income brackets (Table 5).

Table 4. Farmers' interest in taking microfinance for forestry

Decision	Relative frequency (%)
Yes	53.4
No	38.6
Undecided	8.0

Table 5. Respondents' annual gross income and interest in microfinancing

Income class (pesos)	Interest in microfinancing if available			Total
	Yes	No	Undecided	
Less than 20,000	7	5	2	14
21,000 - 40,000	21	10	2	33
41,000 - 60,000	3	4	1	8
61,000 - 80,000	1	4	2	7
81,000 - 100,000	7	2		9
101,000 - 120,000	1	3		4
121,000 - 140,000		3		3
141,000 - 160,000	1	2		3
161,000 - 180,000	1			1
181,000 - 200,000	1	1		2
Above 200,000	5	1		6
Total	48	35	7	90

Knowledge of Using Tree Farms as Collateral in Accessing Credit

In the recent past there have been reports that tree farms can be used as collateral in accessing credit from banks. When tree farmers were asked if they had any idea or information about such a scheme, the majority (53%) replied in the negative. All other farmers who claimed that they have an idea of such arrangements reported that they

have not yet experienced borrowing money from banks. They could not even mention names of successful borrowers except to use anecdotal reports as a basis of their claim.

FINDINGS FROM INTERVIEWS OF BANKERS

Most banks in Leyte provide credit to small landholders. Results of the study however indicate that none of the banks have provided financial support for forestry. While representatives of two of the 10 banks included in the survey revealed that they accept tree farms as collateral in providing credit, they explained that they have to first secure their money by looking at the conditions of the trees and the potential market of the product. It is clear that banks are willing to provide credit for smallholder forestry provided there is acceptable collateral.

While banks are required by law to provide part of their loan portfolio for agricultural production loans which may include tree farming, they shy away from such loans because of their past experience with agricultural production programs such as Masagana 99 wherein most loans were not fully repaid³. Similarly, government-controlled banks including the Landbank of the Philippines are mandated to serve the agricultural sector, but forestry is apparently outside their loan portfolio because of rechanneling of their funds to commercial purposes (Sumaylo, 2003). Banks place higher priority on financial services for which there is a greater assurance of repayments by borrowers.

From the bankers' point of view, investing in tree plantations is risky primarily because of the long-term nature of tree growing. Compounding this situation is the difficulty to market the harvested products at a competitive price and the lack of technical skills of farmers to ensure the production of healthy plantations and their capacity to pay. Thus, finance providers require collateral such as land titles which are used as mortgage for loans to ensure repayments whatever happens to the tree plantation.

FINDINGS FROM INTERVIEWS OF DENR AND DA STAFF

Little microfinancing of smallholder forestry takes place on Leyte Island. The support provided by government agencies and NGOs consists mainly of technical assistance, small grants for livelihood and other form of subsidies including the provision of seedlings and livestock for dispersal. If financial support is available, it is only given to participants of a specific forestry project that is implemented in a local area. In most of the cases, funds are channelled through People's Organisations (POs) and seldom to individual tree farmers. The funds are released according to the schedule of approved project activities. Funds for forestry projects implemented by the

³ Credit programs were initiated in the early 70s to encourage small farmers to adopt a new and high-yielding rice varieties. No collateral, low-interest loans were made available to small farmers by rural banks with the government guaranteeing 85% of any losses suffered by banks.

government, an NGO or a PO come from the regular funds of DENR or are financed by foreign donors, e.g. the World Bank and the Asian Development Bank.

The support provided by the Department of Agriculture to smallholders is usually the same as that of the DENR except that their focus is on agriculture. DA staff provide technical assistance to farmers, and sometimes also funds for livelihood or small-scale income generating activities. Some offices of DA also raise tree seedlings and distribute them without charge to interested farmers.

DISCUSSION

The prospects of microfinancing for smallholder forestry on Leyte Island are not yet clear. At present, banks are more concerned about the assurance of repayment for financial services. All bankers interviewed explained that they require collateral for a loan. Banks could still be the most accessible source of microfinance for small-scale tree plantation development provided that there is a clear and distinct policy where harvesting and subsequent marketing of timber-based products can be made simple and less bureaucratic. Banks, however, need to be convinced of the financial viability of a tree planting venture. The successful experience in Mindanao where the Paper Industries Corporation of the Philippines (PICOP) provided a market for the farmers' tree products can possibly be replicated. One problem is that there is no wood-based industry on Leyte Island that can assure the market of harvested tree products at a higher price.

The research results have a number of policy implications. DENR can play a crucial role in promoting microfinancing for smallholder forestry by making policies that are investor-friendly. A review of some policies considered oppressive and defeatist by some tree farmers and processors should be undertaken in order to encourage more farmers to invest in tree farming. In addition, DENR can serve as an intermediary between financiers and tree-farmer borrowers and between tree-farmer borrowers and timber buyers. Subject to an applicant's creditworthiness, DENR could act as guarantor for a loan. As well, DENR could extend technical assistance to tree-farmer borrowers and find markets for the tree products to ensure loans can be repaid.

The interest of farmers in microfinancing, whenever it is available, could be influenced by a variety of factors. Although many farmers expressed an interest, they still want to see details of loan arrangement or the mode of repayment. Survey results further indicate that prospective borrowers planned to use the money for other purposes, such as for the education and weddings of their children. Finance may be available but it may not be utilised according to the intended purpose. Some farmers also revealed that they will not take out loans because they have no more land to plant with trees. Assured markets for tree products at a competitive price is an important consideration in devising smallholder forestry programs. Higher market prices can induce farmers to grow more trees.

Farmers have a problem with meeting collateral requirement. Most farmers lack resources, particularly land, which bankers and other lending institutions require as collateral to ensure that money lent is secured.

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