A Case on Providing an Alternative Financing Source to Complete the Package of Farmer Support Services

The LGU is currently producing organic fertilizer through vermicomposting and vermin cast and vermin tea as organic spray. The municipal focal team members are the first to admit that current production levels are not enough to serve the farmers that they have financed as well as those that they are servicing. The MAO has tried to address this concern by sourcing from nearby LGUs like RTR or referring farmers to other private producers (who they also helped set up) in the area.

Buenavista just like RTR is also a pilot area of the Weather Index-Based Insurance (WIBI) a scheme that covers crop losses in cases of low rainfall (drought) or excess rainfall for rice and corn.

All 50 hectares of the LGU loan facility farmer-borrowers were enrolled in the WIBI for both excess rainfall and low rainfall cover. About 75% received pay-outs in the amount of P189,264.00 when the low rainfall index was breached in August. The case of the other 25% has yet to be settled because although there was synchronous planting the enrollment for some was delayed on the account that the financing sourced out from the provincial government came late. It was a lesson for the lender/aggregator (Buenavista LGU) that was learned the hard way.

"Had we known it, we could have advanced the premium. We just treated it as a test beyond our control," Macomao relates.

This matter aside, Calunsag, Macomao, the whole MAO and the other members of the Municipal Implementing Team – led by Mayor Francisco Chan, Vice Mayor Ramon Bungabong, SB Breo Amoroso of the Agriculture and Environment Committee and heads of offices of the municipal planning, environment, and engineering were one in saying that the test run was a success.

They are looking forward to a continuous disbursement of the loan funds which now form part of the LGU’s Climate Change Adaptation Fund and provision of the bundled non-financial services to reach more farmers in their town.

This casellette is prepared by the KM & Process Documentation Support Group - Caraga Learning Service Providers Network (LSPN) for the ILO-DOLE-DTI Climate Change Adaptation Project (CCAP).

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Whereas before, they could only offer sympathy and a listening ear to farmers who shared their woes on piled debts and lack of motivation to harvest knowing that a very minimal if not none of the proceeds would be left to them after paying the debts - this, the agricultural technicians (ATs) in the municipality of Buenavista described of their services to farmers years ago. Now, they are very happy, they can do more! "Grabe good nakatumbang (It’s really a big help)" says Gertrudin Natonton, AT of Barangay Macalang of the innovative and integrated financial package being offered by the local government unit (LGU) of Buenavista.

The integrated financial package referred to the climate change adaptation (CCA) innovative financing scheme - LGU loan facility model which is being tested in Buenavista starting March 2011. Buenavista is one of two Agusan del Norte LGUs (the other is the town of Jabong) which have replicated the LGU loan facility based on the OTOP Rice Loan Facility established in the LGU of R.T. Romualdez and further developed under the Climate Change Adaptation Project (CCAP) in the province of Agusan del Norte as one of the financial risk management mechanisms for climate change adaptation. The other models developed and tested are the cooperative and the rural bank models.

Implemented by the International Labour Organization (ILO), a special agency of the United Nations, with the Department of Labor and Employment (DOLE), Department of Trade and Industry (DTI) in collaboration with the provincial government of Agusan del Norte, CCAP has Buenavista as one of its priority municipalities.

Natonton is one of the nine (9) ATs of the LGU Buenavista Municipal Agriculturist Office (MAO) servicing a total of 25 barangays of the town.

She is also one of the six (6) ATs directly supervising the financial package for some 50 farmers spread in six of the town’s barangays earlier identified as most climate change risk-vulnerable. These are the barangays of Abilan, Tal-o, Aldublad, Agong-ong, Matabao and Macalang.

The financial package is a “welcome” addition to the services we have been offering to our farmers, “shares Virginia Macomao of the Buenavista MAO.

“The financial package is a welcome addition to the services we have been offering to our farmers, shares Virginia Macomao of the Buenavista MAO. This said, she first time that our office or our LGU for that matter will be managing and administering a financing facility.

“IT was a consensus among all municipal local team members to do the replication,” says Macomao.

Enoch Calunsag, the town’s Municipal Agriculturist (MA) added that there were no second thoughts they could handle the integrated financing facility as that of the RTR.

Macomao agreed noting that like most MAs they have experienced managing related activities such as the provision of subsidized seeds and distribution of foliar fertilizer. As a matter of fact, they have been successfully running their own Farmers Field School (FFS) or the Paley Check Program.

The Buenavista LGU Loan package is production-cycle responsive released when needed according to the production cycle paid only upon harvest, non-collateralized, with fewer requirements, and integrated with support services. With the said requirements, the processing therefore is fast. The loan package has the following features:

1. Not a dole-out. The assistance comes in the form of loan with 5% interest per cropping or P7,500.00 interest (on a P15,000.00 loan per hectare) for the whole cropping period.
2. Loan is only given to graduates of the Farmers Field School (FFS).
3. The assistance comes bundled with relevant trainings and briefings on a) financial management-budgeting, savings, credit management, b) climate change, c) environmental laws and policies, and other services coming from national agencies as well as continuing FFS (season-long training) for other topics such as livestock raising, vegetable/corn and high-value crop production/support to farmers in ensuring access to affordable and readily available farm inputs.
4. Assistance in taking out crop and credit life insurance from the Philippine Crop Insurance Corporation (PICC).

Calunsag noted that the climate change adaptation financing is a fitting complement to the indigenous ways of adapting as practiced by most farmers in vulnerable areas in their town.

Farmers, he said have learned to make some adjustments in their cropping calendar avoiding months when flooding usually occurs and the Municipal Agriculturist Office, through its own studies in the fields, has been helping the farmers determine the appropriate dates.

The ready and available financing is therefore crucial for farmers, enabling them to plant when they should, reducing risks and vulnerability from unseasonable planting dates.

Calunsag explained found that thanks! - most of Buenavista’s 25 barangays are not prone to flooding because of the LGU’s good drainage system established through the help of the National Irrigation Administration projects. But the six barangays chosen for the test run of the innovative and integrated climate change adaptation financing have been known to sustain flooding after just two or three days of continuous rains.

Farmers in these areas have not been spared from the high-interest charged by financiers and traders who also purchase their harvests at very low prices.

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She reasoned out she finds it appropriate to test if bailing out this type of farmer borrower can in fact be done and therefore can be applied as well to other cases in her barangay and in the other areas in the town.

True enough, the farmer borrower made good on her loan. Although making her totally debt-free may take a little while, the crucial first step has been taken – i.e. to stop the onerous financing arrangements she had in the past and is already done with the CCAP financial package.

This kind of close monitoring is what Natonton and her fellow ATs are doing for all the farmer borrowers under the LGU loan facility.

Macomao added that the MAOs additional activities in the implementation of the CCAP financing include: 1) weekly implementation team meetings; 2) farmers’ orientations and pre-release briefings and trainings; 3) weekly on-site farmers meetings and consultations with ATs; 4) monitoring of loan use and the actual crop production activities; and 5) monitoring of harvest.

The release of actual loans and repayment are done at the LGU’s Treasurer’s Office.

The simplified application, release and repayment process flow is as shown below:

Source: Financing as Usual: Responding to Vulnerabilities, Adapting to Climate Change. Presentation by ILO CCAP Project Manager LB Vilbocor during the Mindanao LGU Summit, 2011.

MAC Calunsag has his report during the last CCAP Project Advisory Committee Meeting shared that a total of 52 farmer borrowers – 27 males and 25 females cultivating a total of 50 hectares of rice lands were able to avail of the loans totaling P75,000.00.

The loan funds came from the CCAP test run funds of P48,000.00. P31,000.00 counter-part funds from the Municipal LGU of Buenavista and another P15,000.00 from the Provincial Government of Agusan del Norte.

The farm plan budget for all borrowers per hectare (except for two who are tilling only a half hectare each) has been standardized and is reflected in the actual rice production loan application & promissory note filled out by each borrower, as follows:

<table>
<thead>
<tr>
<th>Total Loan Amount</th>
<th>P15,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deducted from Loan:</td>
<td></td>
</tr>
<tr>
<td>Organic Fertilizer</td>
<td>2,500.00</td>
</tr>
<tr>
<td>Crop Insurance</td>
<td>750.00</td>
</tr>
<tr>
<td>Loan Repayment Protection Plan</td>
<td>150.00</td>
</tr>
<tr>
<td>Sub-total</td>
<td>3,400.00</td>
</tr>
<tr>
<td>Expected application of net proceeds:</td>
<td></td>
</tr>
<tr>
<td>Seeds</td>
<td>P1,200.00</td>
</tr>
<tr>
<td>Land Preparation</td>
<td>4,000.00</td>
</tr>
<tr>
<td>Pulling</td>
<td>1,400.00</td>
</tr>
<tr>
<td>Transplanting</td>
<td>3,000.00</td>
</tr>
<tr>
<td>Inorganic Fertilizer</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Sub-total</td>
<td>11,600.00</td>
</tr>
</tbody>
</table>