

The Impact of Micro-Financing among Rice Farmers

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Abstract: This study intends to investigate the socio-economic effects of micro-financing as viewed by the rural rice farmers in the town of San Francisco, Agusandel Sur. The researchers used a quantitative and qualitative research design in the study. It was conducted among the three (3) largest rice producer barangays in the Municipality of San Francisco, which has a total of 313 local farmers and participated as well by three (3) micro-financing loan officers as respondents of the study.

The findings revealed that micro-financing services has a significant contribution among the rice farmers in San Francisco, Agusandel Sur. These institutions had helped the farmers uplift their socio-economic condition. The farmers were able to yield capital in their livelihood and produced a good harvest out from this availed financial loans which provided them to afford education and healthcare to their children. However, the local farmers also asserted that there were still various problems encountered particularly on the land preparation and production which needs to be addressed.

Keywords: Farmers, Micro-financing, Socio-economic effects

1. Introduction

The lack of financial support among the farmers is one of the main reasons for low productivity in agriculture. Rice farmers were one of the most affected group which were generally characterized to have low income, less savings and low capital formation. Hence, the government and other NGO's has to enact policies and programs to improve the socio-economic condition of agriculture sectors.

Microfinance were among of the few institutions which took part to provide aid or financial support to capacitate farmers to cultivate their crops. These are institutions which offers banking deals particularly among the low income individuals or groups. Previous studies has proven the vast positive contribution of microfinance in reducing chances of poverty (Agbola et al.,2015). It was revealed that there were positive impact of micro-financing in the production or harvest in agriculture (Shah et al., 2015). It was also asserted in the study of Gonzales (2014) that microfinance supports the socio-economic aspects of living of the poor and marginalized people. However, micro-financing institutions are mainly concerned with the giving of financial services through loans and not on how their clients will dispense the loan. Hence, the clients are expected to return the loan amount.

Subsequently, farmers with no knowledge of spending practices cannot freely understand and follow to procedures and regulations of microfinance institutions (Saboor et al., 2009). There were some farmers who weren't able to pay the loaned amount and even suffered in paying it with tremendous interests and penalties. Thus, this study intends to investigate the socio-economic effects of micro-financing as viewed by the rural rice farmers in San Francisco, Agusandel Sur. This will also examine the effectiveness of microfinance on the agricultural sectors particularly in their crop production and management.

Some theories and legal concepts attempts to rationalize the study. First, is the Neoclassical Growth Theory by Solow, this theory stresses the importance of savings and capital accumulation in uplifting socio-economic status of a person. This theory advances the notion that since agriculture is the primary source of household income and food production in rural areas (Mekonnen, 2017) and microfinance offered financial services, it is not at far that it can helped farmers to accumulate savings and capital.

Second, is the Permanent-Income hypothesis developed by Friedman (1957). Accordingly, the consumer spending people will need to spend money at a level consistent with their expected long term average income. Thus, a worker will need to budget it in protection to the future failures because based on this theory changes in behaviour are not predictable, therefore, a habit of budgeting will help to increase the income permanently.

Third is the Security Theory of Cox (2012) is typically about survival and about an existential threat to a particular object, which legitimizes the use of extraordinary measures. It opens the way for the state to explain the compelling of special powers to grip the threat. This theory views the idea that a farmer will do everything to secure all the basic needs of the family in order to survive in their daily activities. However, borrowing money on microfinance institutions cannot give security for a lifetime, thus policy maker must give importance to this.

That is why in helping farmers to secure their status in the society certain law formulated like Republic Act No. 7607 also known as Magna Carta for small farmers. It states that the country gives the utmost priority to the development of agriculture wherein approval of small farmers realized the unequal distribution of benefits and opportunities.

Additionally, the Republic Act No. 10000 an Act Providing for an Agriculture and Agrarian Reform Credit and Financing System through Banking Institutions Section 2 declaration of policy says: It is hereby acknowledged the policy of the State to promote the same access to opportunities under an environment of sustained growth and expanding productivity as the key to raising the quality of life for all. Towards this end, the State shall encourage rural development by enhancing access to the rural agricultural sector to financial services and programs that increase market competence and promote upgrading in the rural agricultural sector.

1.1 Statement of the Problem

The study aims to evaluate the effects of microfinance to the socio-economic aspect of farmers. Specifically, it seeks to answer the following questions:

1. What is the socio-economic effects of microfinance as perceived by the rice farmers in terms of:
 - 1.1 Land Size;
 - 1.2 Amount of Yield:
 - a. Yields
 - b. Condition
 - c. Education
 - 1.3 Income per harvest?
2. What are the challenges encountered as perceived by the rice farmers in terms of:
 - 2.1 Land Preparation
 - 2.2 Production?

2. Research Methodology

2.1 Research Design

The study used the quantitative and qualitative method.

The quantitative method was utilized to identify and described the socio-economic effects of micro-financing as perceived by the rice farmers. Furthermore, in gathering facts and information, a validated questionnaire checklist was used in collecting information from the farmer respondents through survey.

Additionally, a secondary data was considered to gather evidence on the socio-economic effects of micro-financing based on the observations of the loan officers. Thus, qualitative method was utilized on the 3 key informants through a data collection technique (Derigay, 2018) where the researcher conducted informal interviews and a structured formal interview with documented audio recording. It is done to triangulate the result from the survey and interview conducted. Moreover, Vaismoradi (2013) suggested that these methods share a similar goal in that they seek to arrive at an understanding of a particular occurrence from the standpoint of one another.

2.2 Research Locale

The study was conducted in the Municipality of San Francisco, Agusandel Sur. The municipality is very rich in agricultural products and considered as the first class municipality in the entire province. The identified barangays were Brgy. Borbon, Brgy. Tagapua and Brgy. Rizal where highest population of farmers and rice granaries of the municipality found.

2.3 Research Respondents

The respondent of the study were the farmers from Brgy. Borbon, Brgy. Tagapua and Brgy. Rizal located in the Municipality of San Francisco. They were chosen considering their address and farm owned. Table 1 indicates distribution of respondents' details.

Additionally, the participation of the three (3) Loan Officers from the different Rural Banks located at the Municipality of San Francisco, Agusandel Sur. The researcher interviewed them based on the availability of their date and place. The researcher based the questions on the perceived socio-economic effects and challenges encountered of farmers from the micro-financing institutions.

Location	Rice Farmers' Respondents
Brgy. Borbon	138
Brgy. Tagapua	130
Brgy. Rizal	45
Total	313

Table 1: Table of Respondents

2.4 Data Gathering Procedure

The researchers secured a permit from the Barangay Offices, upon its approval the researchers made an arrangement with the farmers to administer the questionnaires.

The administration adopted procedures to ensure an open interaction with the respondents to assist them in answering the survey conducted. The researchers introduced themselves and provide a brief orientation. This was shortly followed by an open forum among the respondents where they could ask or clarify matters on the given survey questionnaires. It was done to ensure a full understanding of the questions. After the questionnaires had been answered, the researchers retrieved and tallied the instrument for statistical treatment.

In the other hand, for the qualitative data, the researcher asked the availability of the three loan officers and arranged a schedule for the interview to be done. The researchers recorded an informal interview with the consent from the subject for triangulation of the data gathered. Furthermore, the researchers transcribed, translated and interpreted the information gathered.

2.5 Sampling Procedure

The researchers applied the purposive random sampling method to acquire a population that represented the collected data of rice farmers. Three (3) loan officers were also selected to verify the information given by the farmers as to how they availed micro-financing loans as well as their performances in their payment obligations.

2.6 Research Instrument

The primary tool of the study was self-made questionnaire, thus it needs to undergo validation process. Three (3) experts from the Provincial Department of Agriculture Office, one (1) from the Municipal Department of Agriculture Office, another one (1) president of Farmers Association in Brgy. Borbon who explicitly validated the said survey questionnaire. The result shows an over-all mean of 4.0 with an adjectival rating of very good. It further displays that the instrument used is reliable.

3. Results and Discussions

3.1 The Socio-Economic Effects of Micro-Finance as perceived by the Rice Farmers

Table 2 presents how the farmer respondents perceived to the socio-economic results of microfinance as in terms of Land Size, Amount of Yields (living condition, children education, and healthcare) and Income per Harvest.

Indicators	Mean	Adjectival Rating
Land Size	4.21	Strongly Agree
Amount of Yield		
Yield	3.48	Agree
Condition	3.58	Agree
Education	3.73	Agree
Sub-Total	3.60	Agree
Income per Harvest	3.39	Moderately Agree
Over-All Mean	3.73	Agree

Table 2: Socio-Economic Effects of Microfinance

Table 2 shows the over-all result mean of 3.73 that has an adjectival rating of Agree. It points out that microfinance has positive socio-economic effects as perceived by the rice farmers. Indicators "Land Size" got the highest mean of 4.21 with an adjectival description as "Strongly Agree".

The result from the survey conforms to the idea of Tang &Guo (2017) that micro-finance lend money to those borrowers that possess valuable assets as collaterals. Furthermore, Kaaset al., (2016) noted that land is a collateral that creates better opportunity in having agricultural loans. Also, a loan officer interviewed by the researchers said; “land size has positive factor on the application in the micro-finance loan because the amount of loan applied will depend on the value of collateral they give”.

In the study of Stewart et al., (2012), he revealed that microfinance has a positive results as to the amount of yields into the living condition, children education, and healthcare of the farmers. There were evident increased as to their income, savings, expenditure, and the accumulation of assets, as well as non-financial outcomes including health, nutrition, food security, education, housing, job creation, and social cohesion. It further supported by Perez (2012) as he stated that being able to enhance the poor’s capacity demonstrated the impact of assessments of microfinance where financial services initially improve people’s lives for fundamental social services.

Another loan officer that was interviewed by the researcher said; “micro-finance has positive socio-economic impact to the living status of farmers however, a financial plan is needed because it might lead to some arrears.” Stewart et al., (2012) supported an idea accordingly, although microfinance gained positive socio-economic impact it does harm also. That is why practitioners should adopt a more cautious approach in offering loans because as the longer people are engaged, the bigger the potential for danger since without financial plan, this will lead to liabilities.

For the income per harvest, Wulandari et al., (2017) emphasized that commercial credit from banks and in-kind finance that provided to the farmers have a positive contribution because of the technical efficiency it can give. In support to this idea, Canon et al., (2018) highlighted that although there are many factors that affect the agricultural harvest, hired labor has a big significant effect on rice production. Indeed, farmers also must use modern technology to increase further rice production.

On the other hand, a loan officer said in an interview that micro-finance can help to finance the needs of their farms because it is one of its goals. It connotes the idea that micro-finance really can provide the necessities in the farm to increase the production as well as the income per harvest.

Challenges encountered while engaging in Microfinance as perceived by Farmers

The table 3 below presents the trials faced by rice farmers that will be given an intervention so that the concerned agency can pay attention to the farmers.

Indicators	Mean	Adjectival Rating
Land Preparation		
1. Encountered difficulty in the supply of water in the farm.	4.12	Agree
2. Encountered difficulty in the availability of technology.	4.04	Agree
3. Encountered difficulty in the availability of man power.	4.11	Agree
4. Encountered difficulty in the availability of seeds.	4.07	Agree
5. Encountered difficulty in the availability of medicine.	4.06	Agree
Sub – Mean Total	4.08	Agree
Production		
1. Farm harvest is not always good.	4.07	Agree
2. Encountered difficulty in the prices of rice grains during harvest.	4.02	Agree
3. Encountered difficulty in the financial budget during harvest time.	3.98	Agree
4. Encountered difficulty in the farm to market road during harvest time.	4.16	Agree
5. I don’t have proper trainings and seminars about the new farm techniques.	4.00	Agree
Sub – Mean Total	4.05	Agree
Over-All Mean	4.06	Agree

It further shows that respondents find it challenging in preparing the land to be used in farming with a sub-mean total of 4.08 that has an adjectival description of Agree. Indicators of this include the difficulties of water supply in the area work, dilemma in the availability of technology, man power, seeds and medicine to be used in the farm.

Chapagain&Raizada (2017) affirm to the result that farming in rural areas face challenges in the irrigation because accordingly, they are dependent in rainfall which is low and the land is tainted and difficult to farm. Additionally, they have limited access to technology which is very important in having bigger harvest. Plus, the use and maintenance has gradually declined due to rising labor costs for many of the farm families left the farm for higher paying jobs.

Likewise, Ssendi& Anderson (2009) signifies further that good seeds may not be available, fertilizers and medicine may be too expensive were usually the challenges met by farmers. Thus, according to the loan officer in an interview, "To avoid farm failure, farmer needs to plan the farming needs carefully. Engaging in microfinance, the interest rates of the loan increases if it cannot be paid on time".

It also shows the difficulties of respondents when it comes to production with a sub-mean total of 4.05 that has an adjectival description of "Agree". Respondents agreed that farm harvest is not always better. Furthermore, they also encountered difficulty with regards to the low pricing of rice grains during harvest season, difficulty of goods transportation (to the farm to the market roads) and lastly, the absence of proper training and seminars about the new farm techniques.

In terms of financial budget, Ssendi& Anderson (2009), noted that the critical issue is how to raise the ability of self-employed, especially the rural poor to sustain or improve their economic activities that are essential to their well-being or even survival. They further signify in terms of training and seminar about new farm techniques that some explanation for poverty exclusively focus on individual traits; for example the lack of motivation, determination and self-drive among the poor themselves.

As what a loan officer said, "Farmers must know the government programmes for them to enhance further their knowledge towards farming".

Additionally, Girabi&Mwakaje(2013) suggested on the idea that the promise of microfinance lies in its capacity to empower people to work on their own to eliminate poverty while avoiding enslavement. Furthermore, they emphasized that microfinance institutions were introduced and regarded as an alternative source of financial services in rural areas but not for a lifetime.

4. Summary of Findings

The rice farmers perceived that micro-financing has a positive socio-economic effects. It uplift their living conditions which helped them to send their children to school, improved their healthcare, assets and other opportunities.

However, farmers also affirmed various challenges in their land preparation and production. They had encountered difficulty in the water supply, lack of technology, man power as well as needed seedlings and medicines for farming. During harvest season, rice farmers also met problems on product deflation and transportation. They had asserted that proper training and seminars for various techniques in farming is needed and may significantly helpful for their increase of production.

5. Conclusions

Micro-financing institutions generally offers and provides financial support among farmers through various loan services. These help them in the preparation of their farms and support their family until a good harvest. However, this also brought risks as loans are expected to be paid on time regardless of the condition in the production of crops.

Micro-financing institutions has to be regulated in their policy implementation particularly in the offering of loan services among farmers. The government must also ensure that farmers are not abused as to how much interest or penalties they had to pay for their loans. Financial literacy as well as practical trainings in rice production might be helpful for them to improve their living condition.

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