

**QUICK ASSESSMENT OF THE
SIKAT SAKA PROGRAM (SSP)
AND AGRICULTURE AND
FISHERIES AND FINANCING
PROGRAM (AFFP) BORROWERS
WITH PAST DUE LOANS**

EXECUTIVE SUMMARY

The study assessed the extent of delinquency of AFFP and Sikat Saka borrowers in 10 sample provinces. It aims to examine the factors affecting borrowers' non-payment of their loans; and recommend possible actions to address the delinquency particularly on willful defaulters. The Quick Assessment was conducted at the program and end- borrower levels. To address the objectives of the assessment, primary data generation was employed thru survey and utilization and analysis of program level reports prepared by the Land Bank of the Philippines. The sample areas selected are those with past due ratio higher than 20% and with most number of delinquent accounts. A total of 216 sample respondents were interviewed during the survey. In addition to borrowers survey, key informant interviews were also conducted. The key informants were asked regarding selection criteria for potential borrowers, lending processes and policies, and their experience in implementing SSP and AFFP to the small farmers and fisherfolk.

Results of the study showed that the major causes of loan default are the following: i): natural calamities such as drought and typhoon; ii) willful default or lack of willingness to pay; iii) pest infestation; iv) low income due to poor yield; loss of income due to scam; and vi) problem in irrigation water supply. Across all provinces, calamity was reported to be the major cause of loan defaults among the borrowers of the programs. For willful default, reasons reported by these borrowers include using loan proceeds for household expenses, paying first obligations to private moneylenders, and diverting loans for other purposes. A mismatch of production cycle and maturity of the loan affected payment of loans was also reported as another cause of non-payment.

To achieve a balanced perspective in regard to the problem of loan default among farmer-borrowers, interviews were also conducted with key personnel of program lending centers and service conduits. According to the lenders and service conduits of the Sikat Saka Program, the leading cause of loan default is calamity where many of the farms in these areas were affected by typhoon or drought or both. This is corroborated by the high percentage of the sample farmer-borrowers reporting

calamity as their main reason for their loan default. On the contrary, lenders/service conduits under the AFFP reported that the leading cause of past due is willful default. Some borrowers failed to pay their loan due to the long distance of LBP branch from their residence which entails high transportation fare. Others tend to save the money supposedly for loan payment for planting during the next cropping season. Meanwhile, there is also an instance reported that borrowers follow the decision of their co-borrowers not to pay their loan.

Notwithstanding, automatic crop insurance coverage of projects under the AFFP and SSP, it was apparent that farmer-borrowers were not able to maximize the benefits of the crop insurance to take care of loan defaults. For farmers who were aware of crop insurance coverage of their projects, unfamiliarity of the procedures on applying and filing of claims was considered a limitation to obtain a full indemnity particularly for those affected by calamity or death of animals.

It was also noted during the survey that under the AFFP that potential borrowers endorsed to LBP are those who have submitted early their complete documentary requirement to the service conduits, unlike in the selection of potential borrowers under the Sikat Saka Program where only those legitimate members of IAs with no irrigation fee arrears can be given a certification from NIA and endorsed for loan application.

Survey results also revealed that lack of manpower and logistics hindered the conduct of regular monitoring of borrowers and projects. Monitoring of borrower is important to ensure that the fund is used as intended and not diverted to other financial needs, thus, reducing the chance of loan default. Failure to pay attention to this will in no doubt result to loan default especially if the loan fund is used in non-income generating activities.

Findings identified based on the causes of loan default relate to the need for : (i) a more coordinated approach among program partners (LBP, PCIC, NIA, NFA, ATI, DA.

Service Conduits and Focal Persons/Coordinators) at all levels to improve implementation of the program (ii) better readiness of the borrowers to manage the project; (iii) increased manpower and logistic complement at the field level (monitoring, evaluation and facilitating repayment of loans); (iv) strict enforcement of policy and guidelines in qualifying borrowers and approving projects/loans; and (v) enforcement of measures to remedy implementation problems (e.g. technical, market, operational bottlenecks, delinquent accounts, and others); and (vi) continued provision of training to include: creditworthiness, alternative livelihood projects, farm technology, among others.

I. Background and Rationale

In a report provided by the Land Bank of the Philippines, past due loans under the Sikat Saka Program (SSP) and the Agriculture and Fisheries Financing Program (AFFP) showed an increasing trend. As of September 30, 2016, AFFP posted past due loans of P45.79 million or 21.67% past due rate. This is 9.38% higher than last year's past due ratio of 12.29%, while the Sikat Saka Program posted past due loans of P94.38 Million or 11.18% compared to 7.73% of the same period last year.

Alarmed by the increasing past due loans on the two programs, it is imperative that a quick assessment be immediately conducted to determine the interventions that the LBP and the DA-ACPC will undertake to improve the program performance.

II. Objectives

The quick assessment was aimed to: 1) determine the extent of delinquency under the SSP and AFFP; 2) examine the factors affecting borrowers' non-payment of their loans; and 3) recommend possible actions to address the delinquency particularly on willful defaulters.

III. Approach and Methodology

A. Assessment Design Framework

The Quick Assessment was conducted at the program and end-borrower levels. To address the objectives of the assessment, primary data generation was employed through survey and utilization and analysis of program level reports prepared by the Land Bank of the Philippines.

Program Level Assessment. At the program level, program performance was determined through desk review and analysis of reports (e.g. status of loan disbursements and collection) submitted by Land Bank (See Annex 1).

End-Borrower Level Assessment. The end-borrower level assessment entailed a survey of sample end-borrowers of the SSP and AFFP focusing on examination of factors affecting default of payments. Primary data were likewise generated for this purpose using structured questionnaires (Annex 2).

The assessment was conducted by the ACPC Monitoring and Evaluation Division (M & E).

B. Sampling Methodology

A simple random sampling procedure was employed in selecting the sample respondents. Five (5) provinces for Sikat Saka areas and another five (5) provinces for AFFP areas were selected as sample provinces. The sample areas selected are those with past due ratio higher than 20% and with most number of delinquent accounts. A total of 216 sample respondents were interviewed during the survey.

C. Key Informant Interview

In addition to borrowers survey, key informant interviews were also conducted. The key informants were asked regarding borrower's selection criteria, lending processes and policies, and their experience in implementing SSP and AFFP to the small farmers and fisherfolk.

IV. Scope and Limitations of the Study

The quick assessment study was intended to examine the extent and causes of loan delinquency under AFFP and SSP. The study covered ten (10) provinces with high past due ratings and most number of delinquent accounts under the AFFP and SSP. The difficulty of the respondents to recall relevant information on their loans has affected the

study to assess empirically the farmer-borrowers record of repayment and to some extent the outstanding balances. Also, the respondents may have withheld important information due to the sensitivity of the questions.

V. Program Accomplishment (As of September 30, 2016)

Based on the submitted report of the LBP as of September 30, 2016 for the AFFP, total loan releases have reached P 308.20 million benefitting 2,281 farmer-borrowers. Of the total loan released, around P 211.21 million is still outstanding, with past due loan amounting to P 45.79 million or 21.67%. Among the provinces, Cagayan, Apayao, Kalinga Masbate and Romblon posted higher past due ratio of more than 20%. The province of Romblon recorded the highest past due ratio of 88% with 143 loan default. This is followed by Kalinga with past due ratio of 50% and 112 of the borrowers have defaulted. On the other hand, the past due ratio recorded in the provinces of Masbate and Apayao have reached 48% and 44% respectively, while Cagayan posted a past due rate of 23%.

With regard to the Sikat Saka Program, total loan releases amounted to P 497.37 million with 1,391 farmer-beneficiaries as of September 30, 2016. Amount of loans outstanding is approximately P 95.64 million, of which 23.3 million is already past due. Past due rate in the province of Tarlac is one of the highest (78%) among the provinces where SSP is being implemented with 105 loan defaulters. Past due ratio in Occidental Mindoro stood at almost 31% with 107 past due accounts. In North Cotabato, 229 borrowers are already past due which is computed at 20% of the outstanding balance.

VI. Study Results and Findings

A. Borrower Level

1. Causes of Loan Default

a. Sikat Saka Program

During the survey, Sikat Saka sample borrowers were asked on their reasons for non-payment of loan. According to them, the major causes of their loan default are the following: i): natural calamities such as drought and typhoon; ii) willful default or lack of willingness to pay; iii) pest infestation; iv) low income due to poor yield; loss of income

due to scam; and vi) problem in irrigation water supply. Across all provinces, calamity was reported to be the major cause of loan defaults among the borrowers of the program. Result shows that all of the borrowers in North Cotabato indicated incurring past due because of the severe drought condition that affected the province resulting to crop damages. In the case of Mindoro Occidental, half of the responses indicated drought affected the supply of water in their irrigation facility resulting to low crop yield. On the other hand, 75 % of the responses of the borrowers in Tarlac cited typhoon as the main reason for the delay in their loan repayment. In contrast, fifty percent (50%) of the respondents in Nueva Vizcaya were considered willful defaulters, similarly to 31% sample borrowers in Iloilo. Reasons reported by these borrowers include using loan proceeds for household expenses, paying first obligations to private moneylenders, and diverting loans for other purposes (Table 1).

Table 1. Causes of SSP Loan Default by Province

Causes of Loan Default	Provinces										Total		Rank
	North Cotabato		Iloilo		Nueva Vizcaya		Occidental Mindoro		Tarlac				
	No.	% Share	No	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share	
Calamity	21	100%	14	44%	6	33%	13	50%	18	75%	72	60%	1
Willful Default			10	31%	9	50%	3	12%	1	4%	23	19%	2
Pest Infestation			4	13%			5	19%	4	17%	13	11%	3
Low Income Due to Poor Yield			4	13%	1	6%			1	4%	6	5%	4
Loss of Income Due to Scam							5	19%			5	4%	5
Irrigation Problem					2	11%					2	2%	6
Total	21	100%	32	100%	18	100%	26	100%	24	100%	121		

b. AFFP

Table 2 shows the causes of loan default among AFFP borrowers. Most of the responses of the borrowers in Northern Luzon (Cagayan (75%), Kalinga (59%) and Apayao(69%)) mentioned that they experienced drought during the 1st cycle and then typhoon in the 2nd cycle damaging their crops affecting their loan repayment. In the case of borrowers in Romblon, majority (38%) experienced low income due to poor yield, while 18% of the responses indicated low buying price due to oversupply of hogs, thus, incurring past due. It is worth noting that around 31% of the responses in the province of Apayao are considered willful defaults because majority of the borrowers followed the example of the vice mayor and association chairman who did not pay their loans. Likewise, 36% of the responses in province of Masbate are also willful defaults citing late loan release from LBP prompting them to avail of loan from private moneylenders , thus, prioritizing payments of their loans from these lenders; while others used loan proceeds for personal expenses. A mismatch of production cycle and maturity of the loan affected payment of loans was also reported as another cause of non-payment. The case was experienced by borrowers from Romblon (4%) and from Masbate (20%) whose loans carry a 6-month tenor. According to them, they applied for a longer loan maturity for their cattle breeding projects, however, when their loans were approved, the loan maturity given was up to six (6) months only making it difficult for them to pay the amount in a short period of time. This is taking into account that income from the project may not be generated to coincide with the loan maturity period.

Table 2. Causes of AFFP Loan Default by Province

Causes of Loan Default	Provinces										Total	Rank	
	Romblon		Masbate		Cagayan		Kalinga		Apayao				
	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share			No.
Calamity	2	4%	7	28%	12	75%	13	59%	18	69%	52	39%	1
Low Income Due to Poor Yield	17	38%	2	8%	1	6%	4	18%			24	18%	2
Willful Default	3	7%	9	36%	3	19%			8	31%	23	17%	3
Death of Livestock	7	16%	2	8%							9	7%	4
Low buying price due to oversupply of produce	8	18%									8	6%	5
Pest Infestation	6	13%					2	9%			8	6%	5
Short Maturity Period	2	4%	5	20%							7	5%	6
Irrigation Problem							3	14%			3	2%	7
Total	37	100%	25	100%	16	100%	22	100%	26	100%	134	100%	

2. Length of Delay in Loan Payment

It can be seen in Table 3 below that a greater number (69%) of the sample respondents are long overdue with their loan payments. Indeed, two (2) out of five (5) Sikat Saka borrowers are almost one year delay in their loan payment while, roughly 28% are not paying their loans more than a year. The proportion is almost the same for the AFFP borrowers wherein approximately 45% of them are seven (7) to 12 months in arrears and 21% have already defaulted from their loan for over a year.

Table 3. Length of Delays in Loan Payment

No. of months	Sikat Saka Borrowers		AFFP Borrowers		Total	
	No.	% Share	No.	% Share	No.	% Share
1 - 3 months	6	6%	8	7%	14	6%
4 -6 months	27	25%	28	26%	55	25%
7-12 months	45	42%	49	45%	94	44%
More than a year	30	28%	23	21%	53	25%
Total	108	100%	108	100%	216	100%

3. Loan Monitoring

Majority of the SSP farmer-borrowers (80%) reported that they were aware that monitoring was undertaken by LBP Loan Officers and or by President of IAs. While 20% indicated that they were not monitored or visited by LBP loan officers or IAs (Service Conduits) (Table 4).

Table 4. Awareness of project monitoring by borrowers (SSP)

Awareness of Project Monitoring by Borrowers	North Cotabato		Iloilo		Nueva Vizcaya		Occidental Mindoro		Tarlac		Total	
	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share
Aware	20	91%	26	100%	9	60%	19	76%	12	60%	86	80%
Not aware	2	9%	0	0%	6	40%	6	24%	8	40%	22	20%
Total	22	100%	26	100%	15	100%	25	100%	20	100%	108	100%

Under the AFFP, 56% of the AFFP sample borrowers were aware that they are being monitored or visited by LBP and Service conduits while 44% reported otherwise. It must be noted that AFFP area like Masbate Province clients is catered by Albay/Legaspi Lending Center, whereas Kalinga, Apayao and Cagayan clients are catered by Lending Center in Cagayan (Table 5).

Table 5. Awareness of project monitoring by borrowers (AFFP)

Awareness of Project Monitoring by Borrowers	Romblon		Masbate		Cagayan		Kalinga		Apayao		Total	
	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share
Aware	13	57%	14	58%	4	25%	15	75%	14	56%	60	56%
Not aware	10	43%	10	42%	12	75%	5	25%	11	44%	48	44%
Total	23	100%	24	100%	16	100%	20	100%	25	100%	108	100%

4. Awareness of PCIC Insurance Coverage

Sample respondents were asked if they are aware if their projects are covered with PCIC insurance. Table 6 shows that almost all (94%) respondents under SSP indicated that their projects have crop insurance coverage under PCIC, very few (6%) reported not aware of crop insurance coverage. Although majority of the respondents were aware of the PCIC insurance coverage for their projects, it was found out that some borrowers were not familiar on the procedures in applying and filing of claims. Some borrowers raised that they cannot claim PCIC insurance because of late visit of the adjuster in the area to assess the damages. As such, some were not able to receive full indemnity particularly those affected by calamity or death of animals.

Table 6. Awareness of PCIC Insurance Coverage(SIKAT SAKA)

Awareness of PCIC Insurance	Provinces										Total	
	North Cotabato		Iloilo		Nueva Vizcaya		Occidental Mindoro		Tarlac			
	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share
Aware	22	100%	25	96%	13	87%	24	96%	18	90%	102	94%
Not Aware	0	0%	1	4%	2	13%	1	4%	2	10%	6	6%
Total	22	100%	26	100%	15	100%	25	100%	20	100%	108	100%

In contrast, a greater percentage (51%) of the AFFP farmer-borrowers are not aware of insurance coverage of PCIC, only 49% are aware that their projects are covered by PCIC insurance. Low awareness of PCIC insurance coverage are noted mostly

from the borrowers in Masbate (88%) and Romblon (78%) (Table 7). Factors that affect awareness may include, distance of the LBP Lending Centers to the borrowers, lack of information on the benefits and risk of crop insurance, and lack of knowledge on the procedural requirements, among others. As previously discussed, LBP lending centers that cater to these clients are situated hundred miles away from the said provinces.

Table 7. Awareness of Crop Insurance Coverage (AFFP)

Awareness of the Program	Provinces										Total	
	Romblon		Masbate		Cagayan		Kalinga		Apayao			
	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share	No.	% Share
Aware	5	22%	3	13%	8	50%	17	85%	20	80%	53	49%
Not Aware	18	78%	21	88%	8	50%	3	15%	5	20%	55	51%
Total	23	100%	24	100%	16	100%	20	100%	25	100%	108	100%

B. Lender/Service Conduit Level

1. SIKAT SAKA Program

a. Causes of Past Due Loans Identified

To achieve a balanced perspective in regard to the problem of loan default among farmer-borrowers, interviews were also conducted with key personnel of program lending centers and service conduits.

Table 8 shows the causes of past due loans under the SSP identified by the Land Bank and Service Conduits/IAs. Across provinces under the SSP areas, the leading cause of loan default is calamity where many of the farms in these areas were affected by typhoon or drought or both. This is corroborated by the high percentage of the sample farmer-borrowers reporting calamity as their main reason for their loan default.

The second leading cause of past due loans is willful default which takes various forms. This includes using loan funds for household needs such as education of children, medical needs of the family, application for overseas employment, . Also included is use

of loan funds as capital for different income generating activity. Moreover, there are borrowers who believe that since loan funds came from the government there is no obligation to payback, hence, dole-out. The other causes of loan default is pest infestation, low income due to poor yield caused by inferior quality of seeds, and late planting due to late release of loan. (Table 8).

Table 8. Causes of Past Due Loans Identified by Lenders and Service Conduits

Causes	Rank
Calamity (typhoon/drought)	1
Willful default ^{a/}	2
Pest infestation	3
Low income due to poor yield	4
Late planting due to late release of loan	5
Lack of awareness of PCIC coverage	
Borrowers included in the list are not actual members of IAs and cannot be located	

a/ include money used for education of children, emergency needs, hospitalization or sickness in the family, buy basic needs of the family, Dole-out mentality and diversion of loan funds

b. Measures/Actions Taken

When asked on the possible measures/action that lenders will undertake in case of loan default, the following were reported; i) send out collection and demand letters to borrowers falling into past due accounts; and ii) in meritorious cases, may offer restructuring of loans (Table 9)

Table9. Measures/Actions Taken In Case of Loan Default, by LBP (Sikat Saka)

Measures/Actions Taken	Percent (%)
Send out collection letters	100%
May offer restructuring of loans	100%

On the other hand service conduits employed a number of measures to address loan defaults, including the following: i) farm management take-over by IAs; ii) apply policy of LBP on past due loans; iii) talk to delinquent borrowers and validate the cause of default;and iv) enforce policy that default borrowers can not apply for loan renewal. It must be noted that management take-over is the last recourse/action that service conduits undertake to address loan defaults in instances when other actions were futile (Table 10).

Table 10. Measures/Actions Taken in Case of Loan Default, by Service Conduits(Sikat Saka)

Measure/Action Taken	Rank
Farm management take over by IAs	1
Adopt LBP Policy on Past due loans	2
Talk to delinquent borrowers / validate cause of default	
Cannot apply for loan renewal	3

c. Recommendations to Minimize Loan Delinquency

To minimize loan delinquency, all lending centers (5) recommended the strict implementation of program policies particularly on the table collateral requirement and farm management take-over. Other recommendations entails strict screening of potential borrowers by IA/NIA and stringent eligibility criteria for endorsing IA, and lastly, for IA to facilitate remittance of payments by the borrowers to LBP (Table 11).

Table 11. Recommendations to Minimize Loan Delinquency as Suggested by LandBank

Recommendations	Rank
Strict implementation of program policies 1/	1
Strict screening of potential borrowers by IA / NIA	2
IA to help in collection of past due accounts	3
Stringent eligibility criteria for endorsing IA	

1/ farm management take over and table collateral requirement

On the part of the service conduits, foremost in their recommendations to minimize loan delinquency is for the establishment of marketing tie-up with buyers to ensure good price for their products. Equally important is the conduct of seminars and trainings on income generating projects, farm technology and values formation. The other recommendations include strict implementations of non-renewal of loans of past due borrowers, regular monitoring of projects by service conduits, regular meeting to update about program guidelines and thresh-out problems, assisting borrowers in filing insurance claims and in validating damaged claims. (Table 12).

Table 12. Recommendations to Minimize Loan Delinquency as Suggested by Service Conduits

Recommendation	Rank
Arrange market tie-up with buyers	1
Conducts seminars and trainings ^{a/}	2
Strict implementation of non-renewal of loans of PD borrowers	3
Hold regular meetings of PATs to update about program guidelines and thresh-out problems	
Regular monitoring of projects	
Assist borrowers in filing insurance claims	
Conducts validation of damaged crops	
Does not tell that the loan is gov't funds	4
Fast processing of PCIC claims	
Encourage farmers to make partial payments	
^{a/} income generating projects/ values formation, farm technology	

d. Other Suggestions/Recommendations (Lender/Service Conduits) to Improve Program

Key informants from Land Bank lending centers and service conduits were asked for their suggestions/recommendations on ways to improve the lending program. Various suggestions/recommendations touching various aspects of the program were put forward by the key informants: a) updating the list of RSBSA to other potential

farmers not included in the list; b) providing incentives to IA/program focal persons involved in program implementation including provision of life insurance to farmers; c) in case of loan default allow restructuring with refinancing specially in areas affected by calamity; d) certification that IAs are active and in good standing should be issued by NIA/BSWM); f) Certification of IAs and or farmers for endorsement to Landbank should be issued by concerned agencies such as MAO/NFA/NIA; g) continued training on credit worthiness, and/or technology training be readily available to farmers. Other suggestions that are worth noting include, lowering interest rate (4.5%, 6%, 12%), increase farm size limit to be financed from 5 ha to 7 ha to be consistent with BSP, and meeting with delinquent borrowers Land Bank, MAO and IAs. (Table 13).

Table 13. Other Suggestions/Recommendations, By Lenders and Service Conduits

Recommendation	Rank
Update list of RSBSA	1
Provide incentives to IA/Program focal persons to monitor project	
Restructure loan with refinancing	
Require certification (from NIA/BSWM) that IAs are active & in good standing	2
Provide life insurance for farmers	
Avoid delay of creditworthiness training to IA members so loans can be processed and released	
Land Bank to directly request certification from MAO/NFA/NIA to avoid fraudulent certification/misrepresentation	3
ATI should be active in conducting trainings	
lower interest rate to 4.5% p.a.	
lower interest rate to 12% p.a	
lower interest rate to 6% p.a.	
Hold meeting with Land Bank, MAO,IAs & delinquent borrowers	
Increase farm size from 5.0 to 7.0 has to be consistent with BSP ^{a/}	
^{a/} suggestion from LBP	

2. AFFP

a. Causes of Past Due or Non-Payment of Loans Identified by Lenders/SC

According to lenders/SC, the leading cause of past due under the AFFP is willful default. Some borrowers failed to pay their loan due to the long distance of LBP branch from their residence which entails high transportation fare. Others tend to save the money supposedly for loan payment for planting during the next cropping season. Meanwhile, there is also an instance reported that borrowers follow the decision of their co-borrowers not to pay their loan. Also, mismatch of project type and loan term given to the borrowers is cited as another cause of loan default. This is followed by marketing problem experienced by borrowers resulting in low income from project that caused non-payment of loan. (Table 14).

Table 14. Causes of Past Due or Non-Payment of Loans Identified by Lenders/SC under AFFP

Reasons	Rank
Willful default ^{a/}	1
Mismatch of project type and loan term	2
Marketing problem	3
Late release of loan fund	4
Diversion of loan funds	
Low income due to low market price ^{b/}	
^{a/} e.g. LBP branch is too far from residence, money used for next cropping, following the co-borrowers decision not to pay their loan	
^{b/} Low market price resulted from oversupply of livestock in the market	

b. Measures/Actions Taken

According to LBP, the measures they have undertaken in case of loan default by the borrowers are as follows: i) send out collection and demand letters to borrowers falling into past due accounts; and ii) in meritorious cases, may offer restructuring of loans. However, it is also a policy of LBP that if past due rate reaches 30%, there will be

no loan releases for new borrowers. Also, if Past Due Rate of whole province reaches 30%, there will be no loan releases for new SCs except for existing borrowers with good credit standing (Table 15).

Table 15. Measures/Actions Taken In Case of Loan Default, By LandBank (AFFP)

Measure/Action Taken	Rank
Send out collection letters	1
May consider restructuring of loans ^{1/}	2
If Past Due Rate reaches 30%, there will be no loan releases for new borrowers. If Past Due Rate of whole province reaches 30%, no loan releases for new Service Conduit except for existing borrowers with good credit standing	3
<i>^{1/} As a policy under the program, loans may not be restructured. However, LBP may consider loan restructuring on a case to case basis.</i>	

For SCs, it is a common practice for them to notify their member-borrower either through letters or personally follow-up payments of their past due loans. Other policies of SCs cited are: i) co-maker of the borrower will assume loan of delinquent borrowers; ii) non-renewal of loan; grace period of 15 days from date of loan maturity and a penalty of 2% per month (Table 16)

Table 16. Measures/Actions Taken In Case of Loan Default, By Service Conduits (AFFP)

Measure/Action Taken	Rank
Send out collection letters or personal follow-up	1
Co-maker to assume loan of borrower	2
Adopt LBP Policy	
non- renewal of loan	
Give 15 days grace period (from loan maturity) and apply 2% per month penalty to delinquent accounts	

c. Recommendations to Minimize Loan Delinquency

LBP highly recommends the regular monitoring of the borrowers’ projects to minimize loan delinquency. There was a suggestion that the DA-MAO or program focal person is the appropriate person to do the project monitoring. Likewise, LBP suggested that table collateral must also be required for AFFP borrowers. This will inhibit borrowers from thinking that the loan is dole-out. Further, the SC or focal persons should carefully evaluate potential borrowers and carefully identify projects to be financed (Table 17).

Table 17. Recommendations to Minimize Loan Delinquency, By Land Bank (AFFP)

Recommendation	Rank
Regular monitoring of project ^{1/}	1
Require table collateral	2
Careful evaluation of potential borrowers by SC/focal person and careful identification of projects to be financed	
^{1/} DA- MAO/focal persons to do the regular monitoring	

On the other hand, the SCs find it important to hold regular meetings with members together with the MAO or focal persons or LBP representative so that the borrowers will be updated on the program policies and guidelines. They will also be regularly updated on their coming loan due date and amount that has to be paid. Also, they recommend the regular monitoring of borrowers’ projects and conduct of seminars or trainings especially on other livelihood projects to augment the income of the borrowers. Other recommendations made by the SCs include: i) arrangement of marketing agreement between farmer-borrowers and buyers; ii) requirement of table collateral to avoid dole-out mentality; iii) encourage borrowers to make partial payments when they have money even if it is not yet their due date; iv) suggests LBP to send reminder letter of the due amount before the due date; and v) explore the possibility of allow the SC to avail loan from LBP so they can augment the working capital of their members by buying the palay of members (Table 18).

Table18. Recommendations to Minimize Loan Delinquency, By Service Conduits (AFFP)

Recommendation	Rank
Hold regular meetings of SC and members with the presence of MAO or LBP representative	1
Regular monitoring of projects	
Conducts seminars and trainings ^{a/}	2
Arrange market tie-up with buyers	3
Ask for table collateral to avoid dole-out mentality by borrowers	
Encourage borrowers to make partial payment of loans	
Ask LBP to send reminder letter before due date	
Allow the cooperative/PO to avail loan from LandBank so they can augment the working capital of members with the buying of their members' produce.	
^{a/} alternative livelihood projects	

d. Other Suggestions/Recommendations by Lender and Service Conduits

Other recommendations made by the Lender and SCs to further improve the program is the hiring of additional manpower dedicated to the program. Because of the growing number of farmer-borrowers availing of loan, LBP and SC finds it a priority to hire additional manpower to accommodate loan applications of farmer-borrowers in order to avoid late release of loan. Other suggestions include: i) updating of RSBSA regularly; ii) organize livestock raisers so they can negotiate and access bigger markets; iii) provide incentives to MAO staff or program focal persons to monitor the projects of borrowers; iv) restructure loans of farmer-borrowers and allow refinancing so that they can plant again and have a chance to recover from losses; lower interest rate to 6% p.a. and 10% p.a.; and v) SCs should be the one to endorse their borrowers to LBP instead of the Municipal Agriculturist since they know their members better (Table 19).

Table 19. Other Suggestions/Recommendations, By Lenders and Service Conduits

Recommendations	Rank
Additional manpower dedicated to the program	1
Update list of RSBSA	2
Organize livestock raisers so they can negotiate and access bigger markets	
Provide incentives to MAO staff/program focal persons to monitor project	
Restructure loan with refinancing	
lower interest rate 10% p.a.	
lower interest rate 6% p.a.	
SCs should endorse their borrowers to LBP instead of MAO	

VII. OBSERVATIONS/INSIGHTS

A. Crop Insurance Coverage

Notwithstanding, automatic crop insurance coverage of projects under the AFFP and SSP, it was apparent that farmer-borrowers were not able to maximize the benefits of the crop insurance to take care of loan defaults. For farmers who were aware of crop insurance coverage of their projects, unfamiliarity of the procedures on applying and filing of claims was considered a limitation to obtain a full indemnity particularly for those affected by calamity or death of animals.

To manage risk of loan default due to calamity which have proven to be the major cause of loan delinquency in the study, policies that would enhance adoption of crop insurance should be strengthened. Access to crop insurance should be improved through communicating farmers with accurate information on the benefits and risk of crop insurance including procedures of filing and claiming for indemnity.

B. Loan Monitoring

It was learned during the survey that the monitoring unit of the LBP Lending Center only conducts post validation of loan a month after its released to check whether the clients have actually received the loan and if the loan was used for its intended

purpose. Loan validation is done only through the service conduits. In addition, distance of lending center to the client's area is another factor that affects conduct of monitoring. Lack of manpower and logistics hindered the conduct of regular monitoring of borrowers and projects.

Monitoring of borrower is important to ensure that the fund is used as intended and not diverted to other financial needs, thus, reducing the chance of loan default. Failure to pay attention to this will in no doubt result to loan default especially if the loan fund is used in non-income generating activities.

C. Attendance to Creditworthiness Seminar

During the interview, it was learned that attendance to seminar on creditworthiness is a prerequisite before loan release. Although most of the respondents indicated they attended the required seminar, majority said that they cannot recall the topics discussed, while some admitted that they only attended because it was posed as a requirement.

It should be a must for farmer-borrowers to participate in training on creditworthiness and not only as prerequisite loan availment but to internalize and understand their obligations and responsibilities. Likewise, follow-through seminar on creditworthiness and financial literacy is also necessary to enhance their knowledge and skills in managing credit funds.

D. Selection of Potential Borrowers and Identification of Project

Based on the program guidelines, there is a set of eligibility criteria that has to be followed in selecting potential farmer borrowers. However, it was found out during the survey that under the AFFP that potential borrowers endorsed to LBP are those who have submitted early their complete documentary requirement to the service conduits, unlike in the selection of potential borrowers under the Sikat Saka Program where only those legitimate members of IAs with no irrigation fee arrears can be given a certification from NIA and endorsed for loan application. Moreover, there are cases of misrepresentation of the eligibility of some borrowers who became loan defaulters.

Project proposal for livestock production having high loan requirement must be thoroughly evaluated to ensure its feasibility. The SC may ask the assistance from experts or agency concern (i.e. Bureau of Animal Industry) to give advice on feasibility of the project.

VIII. Summary of Findings and Recommendations

Overall, the program faced problems particularly in the recovery of the loan funds because of various causes as cited by the respondents such as : i) calamities (drought, typhoons) ii) pest infestations and iii) management of borrowed funds and/or projects. The manner by which loan funds and project was managed which resulted in the following; i) loan proceeds/income was used for emergency need for hospitalization/sickness, household expenses, payment for other financial obligation/debt; ii) divesting in other livelihood project; iv) low income from project due to calamities, scam , and lack of markets.

The findings also revealed that the programs encountered the following operational gaps: i) delays in the release of loans; ii) borrowers' weak identification of projects to be financed (Romblon); iii) mismanagement of the project; iv) lack of staff to conduct regular monitoring (LBP, service conduits, DA); v) inadequate manpower and logistic support at the field, vi) inadequate monitoring of operational, management and financial aspects among IAs, feedback and regular consultation; and vii) poor mindset of borrowers on loan repayment (willful default)

Findings identified based on the causes of loan default relate to the need for : (i) a more coordinated approach among program partners (LBP, PCIC, NIA, NFA, ATI, DA, Service Conduits and Focal Persons/Coordinators) at all levels to improve implementation of the program (ii) better readiness of the borrowers to manage the project; (iii) increased manpower and logistic complement at the field level (monitoring, evaluation and facilitating repayment of loans); (iv) strict enforcement of policy and guidelines in qualifying borrowers and approving projects/loans; and (v)

enforcement of measures to remedy implementation problems (e.g. technical, market, operational bottlenecks, delinquent accounts, and others); and (vi) continued provision of training to include: creditworthiness, alternative livelihood projects, farm technology, among others.

