

## SOME NOTES ON THE MASAGANA 99 PROGRAM AND SMALL FARMER ACCESS TO CREDIT

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The seasonal character of agricultural production, its slow turnover and its vulnerability to chance occurrences, make credit indispensable to the farmer, especially at the beginning of the production cycle. Farmers require credit for a variety of purposes, some of which may be directly related to production, while others are simply for consumption. Borrowing for investment in land and the purchase of farm implements and animals fall in the category of production borrowing, while borrowing to meet daily expenses, unforeseen circumstances (e.g. sickness, death) and certain social obligations (e.g. weddings and other ceremonies) are generally considered consumption borrowing. The line between productive and non-productive borrowing, however, is by no means well-defined. Consumption borrowing for the farmer's food and clothing to the extent that it provides the farmer with the means to reproduce his labor power and increase his efficiency may also be deemed productive.

While it is true that credit by itself will not increase farm productivity and improve farm income, it is a widely held view that the absence of credit or the lack of it, constrains the farmer from fully exploiting his productive opportunities. With credit available, financial bottlenecks are removed and the adoption of technologies more conducive to increasing farm productivity may proceed at a faster rate. Thus, the diffusion of production credit particularly to small farmers is an objective of current development policy.

### *The Masagana 99 Program*

The Masagana 99 Program (M99) is an annual crash program for palay production

that aims to raise the yield per hectare of palay crop land from a national average of about 40 cavans per hectare to 99 cavans per hectare. To achieve this goal, the program offers a package of technology to the farmers in the form of high-yielding variety (HYV) seeds, subsidized fertilizer, low-priced pesticides, herbicides and others. In addition, a supervised credit scheme offering non-collateral loans, extension services, mass media coverage, marketing schemes and a general management coordination have been drawn supportive of the program.

The M99 Program is essentially a credit program. While its ultimate goal is to boost rice production, it sees the availability of agricultural credit on easy terms as a crucial factor in the farmers' decision to increase production via the adoption of HYVs and other modern agricultural inputs. Thus a credit subsidy constitutes the core of this rice production program as "part of the total effort to reduce the cost of borrowing of farmers, thereby enhancing their chances of becoming self-sufficient, inducing their participation in government programs and promoting social equity."<sup>1</sup>

While occasional reference is made to the goal of social equity, the fundamental objective of the M99 Program is clearly one of increasing productivity and growth in the rice sector. If there is any mention of improving the state of social equity, the impression given is that this is only a matter-of-fact consequence of growth and increased productivity — never an immediate goal.

“. . . the overriding objective of the (M99) program is *to achieve self-sufficiency in rice, not to improve the income of small*

*farmers.* It was a coincidence that the target clientele of the program, the Filipino rice farmers numbering close to one million, has an average farm size of around 2.7 hectares."<sup>2</sup> (underscoring supplied).

The above quotation supports Mangahas' observation "that the long-run objective of the Philippines with respect to rice is a level of security and contentment somehow defined for the rice consumer, especially the urban rice consumer."<sup>3</sup> This urban bias proceeds from the recognition of the character of this commodity as a wage good, a rise in the price of which could trigger demands for higher wages, labor unrest and the resultant political instability. But this urban bias suggests not merely a bias for the urban consumer *per se*, but more strongly a bias for the businessman for whom the investment climate must be kept profitable through a policy of keeping wages low.

That the M99 Program's principal objective is increased production and productivity does not preclude an evaluation of the same in terms of its equity implications. For even as the program aims primarily to increase rice production through the diffusion of low-cost credit, what is essential, even from the purely growth-oriented standpoint is the extent to which credit is made accessible to its target clientele, the small farmers. Equally, perhaps more important, is the response of these farmers to the program, since the attainment of the program's objectives is perceived to be greatly dependent on them.

It is from this perspective that the equity rhetoric accompanying the program must be understood. The only way small farmers can be enjoined to participate in the production intensification campaign for rice is to promise them increased returns through a policy of subsidizing the cost of inputs and other complementary measures. This paper focuses on the accessibility of credit to small farmers as a performance indicator of the M99 Program.

### *Subsidizing small farmer credit: Problems and issues*

In most underdeveloped countries today, small farmer credit programs have acquired popularity as a means of improving the output and living standards of the population of small farmers on whom these societies depend for their food and raw materials. Such popularity of special credit programs derives from the basic characteristic of financial credit as a resource, i.e., the ease with which it can be transferred from one party to another and then converted into the desired resource by the user. In addition, the mere existence of a credit program offering low-cost loans to farmers conveniently provides its sponsoring government the means of gaining political and ideological support by publicising its concern for the rural poor, without necessarily altering the prevailing structure of asset ownership which is the main source of inequality.<sup>4</sup>

The problem with government programs which claim to be equity-oriented is that they constitute no more than appeals to the propertied classes to "give a little." As such, their implementation largely depends on the support of these classes and the incentives that the government is willing to grant them in order to elicit their support.

In the case of M99, the policy of low interest rates is accompanied by a wide range of incentives for credit agencies in order that their participation as financial conduits in the usually unattractive program of small farmer lending may be ensured. These incentives include, among others, the use of services of government technicians, lower cost of funds, a loan guarantee scheme, and preferential rediscounting terms. These measures are intended to keep down the cost of lending of the credit agencies to small farmers, and to keep them liquid and in the profitable business of financial intermediation.

But government subsidies constitute no guarantee that the intended beneficiaries of

M99 will benefit from the program. The economic justification for public subsidies after all is that total returns exceed total costs over a relevant time period. In other words: the fact that credit agencies' costs of lending are subsidized by government will not change the former's preference for farmer-borrowers with the ability to pay since financial viability is at all times each agency's concern. Furthermore, the problem of non-repayment characteristic of small farmer credit programs lessens the effectiveness of such subsidy programs to the extent that credit resources become depleted. With no assurance that government funds or those from international donors will always be in ample supply and forthcoming, the survival of the credit program is threatened. But since the cancellation of the credit program would be politically disastrous, the upshot of all these is that the survival of a credit program for small farmers becomes the very reason for the allocation of loan funds away from such farmers via more stringent access criteria, among other things.

Notwithstanding the incentives granted the lending agencies, since it is these agencies which ultimately determine their direction of lending on the basis of the ability-to-pay criterion, the coverage of the credit program cannot but be restricted to farmers who are relatively more productive or at least display the potential of being more productive. This constitutes the first restriction on the scope of M99 where access to credit is generally limited to small farmers with irrigated farms. Farmers tilling rainfed areas are granted loans on the basis of ability-to-pay which is usually taken to mean the farmer's credit record or the market value of his collateral. Those tilling upland rice areas are not qualified under M99.

Another factor that tends to limit the coverage of the potential benefits of M99 is the effective cost of borrowing to farmer-borrowers who are capable of increasing production but need credit assistance. Higher effective borrowing costs

may result because of the lengthy and time consuming process of preparing farm budget plans, filing loan applications, getting them processed and awaiting the release of the loans. From the farmers' viewpoint, all these procedures are costly especially when they result in delays in the release of loans.

The practice under M99 of restricting loan utilization to production is one way of assuring the lending agencies that their loans will eventually be recovered. This method of securing loans, however, has serious repercussions on the farmers' perception of the program as well as on the credit agencies' cost of lending.

The organization of a subsistence farm renders difficult and artificial any dichotomy between production and consumption. When small farmers decide on how much credit they need, they do so in relation to *all* requirements whether these be classified as consumption or investment. They then decide on how best to allocate available credit among its various uses. Thus if credit can be obtained only for production purposes, given the small farmers' varied needs, they will borrow anyway, and that cash becomes "fungible" towards other uses.

If the loan is used for consumption and is eventually not repaid, the defaulting farmers may have experienced an increase in welfare, but such is temporary. Disqualification from the M99 Program, until such time that the outstanding loan is repaid, could possibly make them worse off, if in addition to disqualification, penalties are imposed. In the absence of penalties or the lack of their enforcement, defaulting farmers disqualified from borrowing are thrown back to their previous position, that of being unable to fully exploit their productive opportunities because of the higher interest cost of loans in the informal market. The benefit from the lower interest rate of M99 would simply be a one-shot benefit, and its potential for increasing farm income is negated. However, it

makes little or no difference to the farmer if the effective cost of borrowing in the formal market approximates that which he incurs by borrowing from private moneylenders in his locality. The attitude of getting all he can while the program lasts is thus encouraged and willful default becomes an acceptable behavior. Without the credit program, the farmers can always run to the private moneylender.

Closer loan supervision, while reducing costs associated with loan defaults, increases transaction costs regardless of who ultimately shoulders the burden. To the extent that these lending costs are not reflected in lending rates, the long-term capability of the lenders to finance the program is seriously impaired. On the other hand, if these higher lending costs are allowed to be reflected in lending rates, they translate into higher costs for the remaining borrowers, thus increasing the probability of non-repayment and shrinking further the scope of the credit program. The point is that the contraction in the coverage of the credit program over the long-term is inherent in its very concept which is not too well-grounded on the realities of the rural scene.

#### *The relative scope of Masagana 99*

There is no single definition available to distinguish small farmers from medium and large farmers. The Philippine Government defines the category "small farmer" with this statement: "Small farmers dominate the Philippine rural scene with 85 per cent of the farms in 1971 under 5 hectares in size and 60 per cent under 3 hectares."<sup>5</sup> This is the definition used throughout this paper, i.e., small farmers are those tilling land of a size less than 5 hectares.

The M99 Program is usually referred to as a credit program "especially (for) the small farmer,"<sup>6</sup> meaning to say that even those not falling within this category may be included. However, since the program's concept,

abstracting from implementation problems for the moment, is addressed to the credit problems of said group of farmers, then indeed it might be taken to be primarily a small farmer credit program.

Eligible borrowers who may participate in the M99 Program should be any of the following: holder of a leasehold contract; member of a cooperative, samahang nayon, selda/damayan (joint liability group with at least 3 members in case no collateral is available); a beneficiary of agrarian reform or a landowner cultivator. In addition, if the farmer-borrower has been a participant in previous phases of M99, he must have no outstanding loans and must not belong to a selda with a delinquent member. If the borrower is a non-participant in previous M99 phases, his ricefield must be fully irrigated, and this must be attested to by the production technician. If his ricefield happens to be fully rainfed, his farm plan and budget must indicate an ability to repay the loan.<sup>7</sup>

Based on these eligibility rules, we estimated the number of small farmers who could possibly benefit from the credit program on the basis of data taken from BAEcon's Integrated Agricultural Survey for 1972. Since M99 was started in May 1973, the said survey provides an adequate basis for determining the scope of the program at the time it started.

Table 1 gives the distribution of palay farm area by size in the Philippines and the share of these to the total in terms of area covered.

On the basis of the size intervals given in Table 1, the percentage share of small farms to the total hectareage of palay farms cannot be directly obtained. However, by interpolating between the size intervals 2-3.9 and 4-6.9, we obtain the figure 88.6. Thus we estimate that 88.6 per cent of the total area planted to palay is made up of small farms of a size below 5 hectares. In absolute terms, small farms made up 2,332,041 hectares of

the entire palay area in 1972. Dividing this figure by 1.6 which is the average palay farm size, we estimate that there are some 1,457,526 small farmers.

Since only farmers with irrigated rice lands

and those farming rainfed areas who satisfy certain conditions may borrow under M99, we get the percentage share of these areas to the total area planted to palay. Table 2 shows the relative shares of irrigated and rainfed palay areas to the total palay area.

Table 1. *Distribution of palay area by size, Philippines, 1972*

<i>Farm Size (in hectares)</i>	<i>Number of Hectares</i>	<i>Percent</i>
< 2	1,038,200	39.4
2 - 3.9	1,008,000	38.3
4 - 6.9	432,700	16.4
7 - 9.9	78,800	3.0
10 - 23.9	54,900	2.1
> 24	19,500	0.8
<b>Total</b>	<b>2,632,100</b>	<b>100.0</b>

Source: Integrated Agricultural Survey, BAEcon, 1972.

Table 2. *Distribution of irrigated, rainfed and upland palay areas, Philippines, 1972*

<i>Type</i>	<i>Number of Hectares</i>	<i>Percent</i>
Irrigated	894,600	34.0
Rainfed	1,404,200	53.3
Upland	333,300	12.7
<b>Total</b>	<b>2,632,100</b>	<b>100.0</b>

Source: Integrated Agricultural Survey, BAEcon, 1972.

In computing for the percentage share of irrigated farm area to the total area covered by small farms, we simply multiplied 0.886 by the factor 0.340. This yields a figure telling us that roughly one-third of the total area of small palay farms are irrigated and could qualify under M99.

Next we compute for the small farms which are rainfed in terms of area covered. In the absence of any information about the farmers on these farms who have fulfilled the

other eligibility criteria — cooperative, Samahang Nayon, selda/damayan membership, adequate ability to pay — we simply assumed that these criteria have been met, and proceeded with the computations as in the previous case. Applying the factor 0.533 to 0.886 we obtain 0.472. Adding 0.301 and 0.472 we have 0.773 or 77.3 per cent. Thus only 77.3 per cent or 1,802,668 hectares out of the total area covered by small farms could qualify for M99 financing on the basis of its eligibility rules. Converting this number of

hectares to number of farmers, we divide 1,802,668 to 1.6 which is the average palay farm size as borne out by the same survey. The resulting figure – 1,126,668 – gives us an estimate of the number of small farmers who *could* possibly benefit from the subsidized interest rates on M99 loans.

Aside from the eligibility criteria outlined above, the prospective farmer-borrower, before he can actually avail himself of a loan under M99 must satisfy the following requirements:

(1) he must secure a certification from the barangay leader/captain attesting that he is a bonafide farmer in the barangay; or be issued by the NFAC with a farmer-cooperator's identification;

(2) with the assistance of the production technician, he must prepare a farm plan and budget in accordance with his actual credit

needs. Included in the farm plan and budget must be a farm business analysis, which is to be carefully evaluated and analyzed by both the production technician and bank manager;

(3) certification by the production technician that the borrower is a rice farmer and that he tills a rice area. Also the barangay captain should attest to the farm plan and budget. Furthermore the farmer-borrower's spouse must co-sign the promissory note/trust receipt.

Only then can the farmer actually apply for the loan by filling up the prescribed forms, attaching the duly prepared farm plan and budget, and the certification from the barangay leader.

Table 3 shows the lending performance of the M99 Program over fourteen phases from May 1973 to April 1980. The number of

Table 3. *Masagana 99 lending performance as of April 1980*

<i>Phase</i>	<i>Number of Borrowers</i>	<i>Loans Granted (P M)</i>	<i>Repayment<sup>a</sup> Rate (%)</i>
I May–October '79	402,757	369.5	93.3
II November '73–April '74	236,184	230.7	92.0
III May–October '74	531,249	716.1	83.4
IV November '74–April '75	354,865	572.3	82.1
V May–October '75	302,762	573.0	75.8
VI November '75–April '76	139,155	255.5	81.6
VII May–October '76	145,202	274.1	79.7
VIII November '76–April '77	89,897	164.3	81.1
IX May–October '77	132,026	249.9	76.9
X November '77–April '78	92,814	179.2	78.8
XI May–October '78	116,479	237.1	63.6
XII November '78–April '79	88,830	181.1	45.8
XIII May–October '79	112,641	237.8	—
XIV November '79–April '80	54,250	117.5	—

<sup>a</sup>Only as of June 30, 1979.

Sources: Philippine National Bank; Agricultural Credit Administration; and Central Bank Department of Rural Banks, Savings and Loan Associations as reported by the Technical Board for Agricultural Credit

farmer-borrowers per phase is an indication of the number of those who have passed all eligibility requirements and have opted to avail themselves of M99 loans by following the procedures just outlined above.

At its peak, the number of farmer-borrowers under the M99 Program was 531,249. This was in the wet season (May-October) of 1974. On the assumption that all these borrowers were small farmers, this figure comes out to around 47 per cent of the number of small rice farmers who *could* borrow under the credit program. As a percentage of *all* small rice farmers, this figure is even smaller, 36 percent.

At its lowest, the number of farmer-borrowers under the M99 Program was 54,250. This was during the dry season

(November-April) of 1980. Again assuming that all these borrowers were small farmers, then the M99 Program involved only 4.8 percent of its potential coverage as of early this year. This coverage under the latest period reported becomes even smaller when seen relative to the estimated total number of small rice farmers nationwide. Only about 3.7 percent of small farmers were involved in the M99 Program as of April 1980. Thus the relative scope of the M99 Program may be summed up in Table 4.

Considering that not only small farmers are allowed to borrow under M99, the resulting figures on the percentage of small farmers actually covered to the potential coverage, and to the total number of small farmers would be much smaller than our estimates in Table 4.

Table 4. *The relative scope of the Masagana 99 Program*

<i>Type of coverage</i>	<i>No. of small rice farmers</i>	<i>Percent to total small rice farmers</i>	<i>Percent to potential coverage</i>
No. of small rice farmers (< 5 ha.)	1,457,526	100.0	—
Potential coverage of M99 (small farmers)	1,126,668	77.3	100.00
Actual coverage of M99 (high) <sup>a</sup>	531,249	36.0	47.0
Actual coverage of M99 (low) <sup>b</sup>	54,250	3.7	4.8

<sup>a</sup>Phase III (May-October 1974); assumption here is that all those covered are small farmers.

<sup>b</sup>Phase XIV (November 1979-April 1980); same assumption about coverage was used.

The shrinkage in the coverage of the M99 Program is largely attributed to the problem of non-repayment of loans. Farmers who have been unable to pay back their loans have become ineligible to participate in the succeeding phases of the program. Corollary to this, the inability of co-selda members to repay their loans has precluded farmers with no outstanding loans from borrowing. These

explanations are supported by a TBAC study undertaken in 1977 which reported that 94.3 percent or 482 out of 511 M99 dropouts were ineligible to borrow because of outstanding loans.<sup>8</sup> The study's findings tend to support the findings of previous studies undertaken by the Special Studies Division of the Ministry of Agriculture. Said studies were done in the areas of Central Luzon, Ilocos,

Iloilo, Leyte and Bicol; and covered Phases I through VI, VII and VIII. In all these studies, ineligibility due to outstanding loans was the major reason behind the dropping out of 50-70 per cent of M99 farmers especially after Phases III, IV and V.

Assessing this problem, the government enumerates a number of possible reasons:<sup>9</sup>

(1) low production due to factors like inadequate assistance and supervision from production technicians; insufficient employment of the recommended package of technology; natural and man-made calamities;

(2) attitude of farmer-borrowers who view credit as a dole-out from the government and guarantee coverage as a condonation of non-payment;

(3) misuse of credit proceeds;

(4) the increasing financial burden of farmer-borrowers due to barrio savings fund, barrio guarantee fund, land amortizations, irrigation fees, taxes, etc., all of which limit their repayment capacity.

With the exception of natural man-made calamities, it appears that the above possible reasons for non-repayment of loans are to be expected given the concept and the strategy of implementation of the program. Inadequate assistance and supervision from production technicians is a likely occurrence given the practice of assigning more than a hundred farmers to each extension agent. Extension agents' incentive pay is also tied to the number of loan applications approved such that these agents function more as loan processors rather than production technicians. This situation may have been the result not only of the incentive system for production technicians but more exactly, the all-out public relations effort of the government to speed up the expansion of the M99 Program. Consequently, problems related to insufficient employment of the recommended package of technology and misuse of credit proceeds

arose as both qualified and non-qualified borrowers took advantage of the situation. The impossibility of implementing loan use regulations surfaced partly because of inadequate supervision, but more so because of the fungible nature of credit given the farmer's low-income status.

More basic than all the above, however, is the context in which the supervised credit program is being implemented. For even while the chances of increasing the farmers' incomes are enhanced with the availability of credit on easy terms, the more important question is how the increased income on the farm is appropriated. In the absence of an effective land reform program, the farmer is prevented from realizing either totally or partially the increased gains in his productivity. The current land reform program has not done much to change the situation of low incomes in the rural areas. Mere tenurial reform may not mean much to those who have been shifted from tenancy to leasehold, especially if the total cost of operating the farm has to be shouldered by them. The fact that they still have to turn over a part of their output to the landowners seriously constrains the small farmers' repayment capacity. The same predicament applies to those who have opted to become amortizing owners, especially those who are amortizing lands priced higher than their fair market values. The arrearages situation of the current land reform program casts very serious doubt on the potential of this legislated wealth transfer being realized for even those within its already narrow coverage.

Whether the credit agencies responsible for lending are actually gaining or losing from the default situation of M99 is a matter that has to be empirically established as yet. The more crucial point for our argument is that the logic of profit maximization dictates that these institutions be generally averse to high risk lending, subsidies or no subsidies. It is these institutions' behavior toward risk which makes access to institutional credit difficult



for the majority of small farmers even with the existence of a special credit program such as M99. More than this, however, it is the prevailing structure of property relations based on the monopoly of land and the social and institutional arrangements that it nurtures which are responsible for the small farmers' low incomes — making them “poor credit risks,” and thus reducing their chances of being able to benefit to any substantial degree from the M99 credit program.

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*Notes*

This paper is based on a chapter of the author's masteral thesis, “The Redistributive Potential of the Masagana 99 Credit Subsidy,” submitted to the School of Economics, University of the Philippines, in August 1981.

<sup>1</sup>Presidential Committee on Agricultural Credit, *Financing Agricultural Development: The Action Program* (Agricultural Credit Plan CY 1978-82), Philippines, 1977.

<sup>2</sup>Chita T. Subido, “Small Farmer Credit Policies and Programs in the Philippines,” Paper presented at Conference on Rural Financial Research, California, U.S.A., 1977.

<sup>3</sup>Mahar Mangahas, “Philippine Rice Policy Reconsidered in Terms of Urban Bias,” Discussion Paper 72-8, Institute of Economic Development and Research, School of Economics, University of the Philippines, 1972.

<sup>4</sup>Dale Adams, “Small Farmer Credit Programs and Interest Rate Policies in Low Income Countries,” Economics and Sociology Occasional Paper No. 496, Ohio State University, 1978.

<sup>5</sup>Technical Board for Agricultural Credit, *Focus on Small Farmer Credit; Papers and Report of the Workshop on Small Farmer Credit*, October 22-23 1977. Presidential Committee on Agricultural Credit, 1978.

<sup>6</sup>Ferdinand E. Marcos, *Five Years of the New Society*, Marcos Foundation, Inc., 1978.

<sup>7</sup>National Food and Agricultural Council, *Masagana 99 Implementing Guidelines*, Phase XII, Ministry of Agriculture, Quezon City, Philippines, 1978.

<sup>8</sup>Technical Board for Agricultural Credit, “Survey of Masagana 99 Dropouts in Nueva Ecija,” TBAC Report Series R04-77, 1977.

<sup>9</sup>Presidential Committee on Agricultural Credit, *op. cit.*

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