



The Role of Farmers' Tenure in Securing Loans: The Case of the Philippines' 'Hiraman' Agreement among Farmers

Jolly Q. Agliam¹, Jackilyn C. Areola², Hazel Mae G. Vicencio³, Arjhel V. Domingo⁴

¹Administrative Officer II, Department of Education, Schools Division of Nueva Ecija

²Farm Owner, Municipality of Rizal, Nueva Ecija

³Administrative Assistant III, Department of Education, Schools Division of Nueva Ecija

⁴Graduate School Faculty, Business Administration, Nueva Ecija University of Science and Technology

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Abstract— This study aimed at exploring the role of farmers' tenure in securing a loan, specifically the 'hiraman' agreement among farmers. A sample of 50 respondents was randomly selected and the data were collected mainly through a questionnaire. A descriptive research design was used to analyse and interpret the data collected. The findings revealed that hiraman agreements among farmers are common in a certain area of the Philippines. Most of the borrowers who joined this agreement are farmers who have a tenure as tenants, followed by the farmers who are registered owners/partly owners. It also revealed that there were no farmworkers/laborers that have been entered into this agreement as their role is primarily for the cultivation only, such as planting, growing, harvesting, etc. Furthermore, the study showed the unique characteristics of the agreement and the major reasons for the farmer availing of and securing this loan. However, farmers still encountered constraints during the agreement such as uncertainties in the legal rights of the borrower, and the unavailability of payment instalments. Hence, conducting sustainability training and seminars for resource efficiency, intensification of the subsidy programs, and increasing the presence of formal institutions in the area to help increase the farmers' income is highly recommended.

Keywords— Farmers, farm tenure, 'hiraman' agreement, informal loans.

I. INTRODUCTION

Agriculture greatly contributes to the growth of the Philippines economy as it is the backbone of society. It has been rapidly changing for the past decades and is significantly influenced by innovation, diversification, and liberalization. Among these changes is the emergence of diversified financial institutions wherein the government intensified its lending and/or credit programs to help the agriculture sector, particularly the smallholders. About 92% of the small farmers and fisherfolks are aware of credit from banks, 83% are aware of credit services from microfinance institutions and cooperatives, 73% felt the need to borrow but only 17% actually availed [1]. Despite these efforts, farmers are still accessing financial help from informal loans while others consider it a good but risky investment.

Formal and informal finance coexist in markets with weak legal institutions and low levels of income [2]. One of the

informal loans known in some rural areas is the 'hiraman' agreement among farmers. Hiraman as the smallholder prefer to call the Filipino term for borrowing and is often known as 'sangla' which emerged in 1970. It is the type of loan where a farmer/landowner borrows a large sum of money from one farmer/landowner in exchange for allowing the latter to borrow and cultivate the land of the former that will be used for agricultural purposes for a minimum of two (2) years or until the repayment. Likewise, there are 5.56 million farms/holdings covering 7.19 million hectares in the country reported by the 2012 Census of Agriculture (CA), and 99% of them were operated by households or individual persons [3]. These were farms with different land tenure in which three out of five farms were fully owned or in owner-like possession, about 15% were tenanted, 8% were rented free and 3% were leased/rented [3]. Land tenure systems determine who can use what resources for how long, and under what

conditions [6]. Moreover, about 3.83 million (49 percent) farms were reported to have been used under temporary crops (such as palay, corn, etc.) and Central Luzon is one of the top provinces devoted to these [3].

However, the price of palay dropped due to the surge of import of agricultural products which is the immediate aftermath of the implementation of the rice tariffication law (RTL) or Republic Act (RA) 11203 that streamlined the process of acquiring import permits and replaced quantitative restrictions on rice imports. As a result, farmers are worse off as it leads to a 1.8 percentage point reduction in their income, a fall in palay output as well as area harvested [7]. Moreover, Fertilizer prices have been rising since May 2021 mainly due to larger demand from countries, and the latest data from the Fertilizer and Pesticide Authority (FPA) showed that the average retail price of the fertilizers (urea, ammosul, complete and ammophos) as of October 2021 has recorded a 37% - 83% increase per 50-kilo bag from the same period last year [4] and [5]. The steadily rising price of farm inputs such as fertilizers and fuel worsens the current situation of all farmers, and they are afraid that current subsidies from the government aren't enough to cover their financial losses and that today they would have to cope with the higher production costs.

Farmers face many types of risks, from the natural calamities, limited financial capital and volatility prices in the market. Such unpredictability has implications for their behavior, well-being, resource allocation, investment and financing decisions. The money, time, and effort they put into starting and operating a farm as well as lending money is a hard-earned investment since farming is an economic activity that requires capital regardless of its scale. Hence, the depressed price of their products and skyrocketing cost of farm inputs made farmers into debt-bondage which may result in the renting, loaning or even selling of their farms as farming will not be profitable enough to cover their financial losses, debts and needs. Assessing the role of farmers' occupancy in securing loans is the aim of this study. Despite the improved access to finance, the number of farmers accessing informal loans is very evident in certain areas of the province, specifically the *hiraman* agreement, and the numbers were observed to be growing these past few months after the last harvest, thus, the researcher finds relevance in conducting the study.

The study specifically sought to describe the farmers' current loan status in terms of *hiraman* agreement and the significant relationship between their type of tenure/occupancy as a borrower. It also aimed to describe the characteristics of the *Hiraman* Agreement, the reasons farmers in securing it and the constraints encountered

among them. Furthermore, the proponents aimed to recommend a solution based on the findings of the study.

II. METHODOLOGY

The study utilized the descriptive research method in describing the characteristics of the variables. Simple random sampling is the technique used to randomly select the target respondents of 50 farmers in a certain area of Nueva Ecija, Philippines. Moreover, the researcher conducted the survey during the distribution of seeds for the 2021 dry season in the Municipal Agriculture Office with permission from the good office and respondents, it is the time when farmers from different barangays gathered. The data were collected using structured questionnaires and were analyzed using descriptive statistics such as percentage, frequency, and ranking. A survey approach was used and interviews were conducted to provide in-depth experiences and detailed information about the experiences of the respondents.

III. RESULTS AND DISCUSSIONS

1. Describe the farmers' current loan status in terms of *hiraman* agreement and the significant relationship of their type of tenure/occupancy as a borrower.

Table 1 Respondents who Availed the 'Hiraman' Agreement

Response	Frequency	Percentage
Yes	22	44%
No	28	56%
Total	50	100

Table 1 shows that 56% of the respondents are not currently associated with *hiraman* agreement, but it doesn't mean that they didn't avail it in the past and don't have any existing loans from other formal and informal sources. On the other hand, 44% of them currently availed of the said agreement.

Table 2 Loan Status of Farmers

Status	Frequency	Percentage
Old – present	14	64%
New	8	36%
Total	22	100%

Table 2 illustrates that out of the 22 respondents who availed *hiraman* agreement, 64% were already having an

existing loan from the previous years up to the present, while 36% are new and were made right after the last harvest season.

Table 3 Number of Borrowers According to Farmers' Tenure

Type of Farm Tenure	Frequency	Percentage
Registered/partly Owner	5	23%
Tenant	13	59%
Lessee	4	18%
Farm worker/laborer	-	-
Total	22	100%

Table 3 represent the number of farmers as borrower under this agreement according to their type of tenure. It showed that out of the 22 farmers as borrowers, about 59% of them are tenants and included here are those who still don't have a land title but have an actual right/possession of the land, followed by the registered/partly owner with 23%, and 18% of the lessee. Farmworkers/laborers don't enter into *hiraman* agreement as they don't own the land and their role mainly focuses on the cultivation of crops – from planting until harvesting for which they are paid.

2. Describe the characteristics of the *hiraman* agreement

Table 4 Characteristics of the Hiraman Agreement

Characteristic	Frequency		Percentage		Total	
	Yes	No	Yes	No	F	%
The simplicity of the agreement	22	0	100%	0%	22	100%
Trust and confidence of both parties	19	3	86%	14%	22	100%
Convenience, quick service, and flexible	22	0	100%	0%	22	100%
Cultivation rights are not forfeited in case of non-payment	22	0	100%	0%	22	100%
The farmer who has an actual	18	4	82%	18%	22	100%

right/possession of the land can avail of the loan						
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Table 4 shows that one of the unique characteristics of the agreement is its simplicity where it is constructed in simple Filipino words that every farmer can understand and consist of one (1) page only. The written agreement can be made and signed between the parties in front of at least two witnesses and/or in the barangay office - sealed and signed by the Brgy. Chairman with the corresponding fee. Likewise, 100% of the respondents agreed that the process is quick, convenient, and flexible in terms of repayment since farmers under this agreement often have close proximity with each other. In addition, according to the 100% of the respondents, the cultivation rights don't forfeit in the event of loan default as the contract is continuous until its repayment which has no interest and with the understanding from both parties that the turnover of land should be after the planted crops are harvested. Most farmers belong to the same community, thus 86% of them believed that the trust and confidence they have as they know each other personally is one of its foundations. They tend to borrow money or lend it to the person whom they know personally. Moreover, 82% said that they can avail of the loan even without land title provided that they have the actual right/possession of the land, however, the amount that they can loan is limited only as they are not yet the owner.

3. Describe the reasons farmers in securing the '*hiraman*' agreement and the constraints encountered among them.

Table 5. Reasons for Borrowing Money

Reasons	Frequency	Rank
Strong financial needs (personal/family)	35	1
No or little income from the harvest	33	2
Payment of debts and/or loans	25	3
Need for large capital to start a new business	8	4

*multiple responses

There are several factors as to why farmers borrowed a lump sum of money from their co-farmers instead of the formal financial institutions. Most formal institutions offered loans with specific purposes and conditions and

there were times that farmers faced problems that immediately needed a large sum of money for their personal and/or family use. Secondly, there is no or little amount of income from the last harvest to cover their production costs for the next season, which is caused by the drop of palay price and the drastic increase of the farm inputs. Moreover, farmers have existing debt and/or loans that they expected to pay, but unfortunately cannot repay, thus, they tend to borrow money from different sources. And lastly, the need for large capital to venture into new business or investment drives them to avail it.

Table 6. Reasons for Lending Money to Borrow Land

Reasons	Frequency	Rank
Additional investment	26	2
There's a remaining surplus	27	1
New and keen to try agricultural production	3	4
Location and quality of land	24	3

*multiple responses

Despite the uncertainties, current problems and challenges encountered [8] by the agriculture sectors, some farmers are taking the risks in entering and/or expanding their business by lending money to their co-farmers with no interest as they have a remaining surplus to borrow the land mainly for agriculture purposes. Secondly, they also consider it as their additional investment/business to continuously support their financial needs. In addition, the location and quality of land drive other farmers to invest as it will greatly affect their productivity. Some farmers have shown small interest in trying agricultural production as the reason to invest.

Table 7. Constraints Encountered in 'Hiraman' Agreement among Farmers

Constraints	Frequency	Rank
Quality or type of land	7	4
The amount of the loan cannot be paid by instalments	18	2
Lack of ownership document	11	3
Uncertainty in the legality of rights, Family conflict of rights/interest	31	1

*multiple responses

The uncertainty in the legality of rights and conflict of interest among the family of the borrower ranked first to be the constraints among farmers in this agreement. Moreover, since the loan cannot be paid by instalments, it

often results in the extension of the contract with some adjustment in the duration as well as the loan amount. Lack of ownership documents can also hinder the farmers in terms of the amount they need. It also showed that farmers view the quality or type of land before making the decision to borrow it.

IV. CONCLUSIONS AND RECOMMENDATIONS

Although there are formal financial institutions today that offer and deliver loan services to smallholder farmers, many of them still access capital informally. Thus, it will continue to increase as long as there are no positive changes in the income of the farmers. Moreover, the *hiraman* agreement is normally practiced among farmers living in rural areas and most of them often have close proximity or personally know each other before making the agreement. Hence, farmers know the present economic condition of their co-farmers. Furthermore, this agreement has unique characteristics that most formal institutions cannot offer and it gives a chance to farmers who lack land ownership title but have been in farming for a long period of time to avail of the loan, provided that he/she has an actual right/possession of the land. Lending money to borrow land is also a very risky investment for other farmers, especially at this time when the prices are very volatile in addition to the natural calamities brought by climate change. Farmers who invest in borrowing the land may return it to the owner if he/she sees that farming is not profitable enough.

The study suggests that there's a great need to improve the income of the smallholders to prevent them from debt-bondage. Likewise, this study has valuable financial associations, particularly with the farmers [9]. Sustainability training and seminars, and farmers' empowerment [10] would help them to become resource-efficient and be knowledgeable in reducing their cost of production. Hands-on training is recommended on this as farmers can integrate its application into reality. Moreover, the government may take a look and assess this agreement and its possible problems that may cause the land rights of the people. It is also recommended to increase the presence of formal institutions in the community and as well as provide a seminar for farmers to become financially wise in managing their farms. In addition, intensifying the subsidy program is beneficial, especially in the present economic condition of the agriculture sector where input prices increase and the price of output decreases.

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