

Factors Affecting the Choice of Credit Sources of Cavendish Banana Farmers in Davao del Norte, Philippines

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Abstract

In the Philippine Cavendish banana industry, farmers incur almost PhP 500,000 per hectare for production cost. On top of standard inputs necessary for production, the spread of diseases and occurrence of climate extremes such as drought and typhoons would mean more costs for the farmers. To sustain production, agricultural credit becomes the fastest solution. Credit sources can be classified as formal and informal. Formal credit sources may include banks and cooperatives while informal sources include moneylenders and traders. The choice of credit source would have implications to the farmers. Informal credit, for example, could be exploitative due to high interest rates while formal institutions may have strict requirements. Because of this, it becomes relevant to understand the factors affecting the choice of credit source by farmers. Using a multinomial regression model, data from 187 Cavendish banana farmers in Sto. Tomas, Davao del Norte, were analyzed to determine what influences farmers to choose a credit source over the other. The results show that factors such as education, contract arrangement, and infrastructure level significantly affect the choice of credit source. Key findings also show that majority of the farmers loan money for capital, with the majority sourcing this from formal institutions. Results also indicate relatively higher interest rate for informal credit than formal credit. The results of this study can potentially aid the government in crafting policies and interventions relating to agricultural credit. Consequently, this study may enable reliable credit sources to be more accessible to farmers.