

■ PROGRAM ON ESCAPING THE MIDDLE – INCOME TRAP: CHAINS FOR CHANGE

LESSONS LEARNED FROM THE CASE STUDY ON SOCIAL FINANCE

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INTRODUCTION

The fisheries sector in the Philippines holds significant economic, social, and cultural value. As one of the largest archipelagic countries globally, the Philippines boasts an extensive marine ecosystem that sustains millions of people, especially in rural coastal areas. Despite the sector's importance, it faces persistent challenges that hinder its growth and sustainability, including poverty, overfishing, poor market access, and limited resources. These issues are particularly pronounced in regions like the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) and the Zamboanga Peninsula (Region IX), which face both environmental challenges and socio-political instability. These areas have long been marginalized from mainstream development programs, leaving many communities with inadequate infrastructure, financial support, and opportunities for sustainable livelihoods.

The fisheries sector's importance extends beyond food security to supporting local economies. According to the Food and Agriculture Organization (FAO, 2021), fisheries and aquaculture provide livelihood opportunities for over 200 million people globally. In the Philippines, fisheries account for approximately 2.4% of the GDP and employ over 1.5 million Filipinos (National Economic and Development Authority [NEDA], 2020). However, despite the sector's significant contribution to national and local economies, fishers in many regions continue to face

challenges that hinder their full participation in value chains.

This paper explores an insightful case study of a fisheries value chain broker located in Cagayan de Oro, which connects fishers from BARMM and Region IX to broader markets, addressing many of the systemic challenges faced by small-scale fishers. The case study examines how the brokerage's approach to financing, market access, and ethical governance structures has empowered local fishers and contributed to improving their socio-economic conditions. It offers a perspective that highlights the potential of ethical intermediaries in transforming value chains and providing inclusive solutions to marginalized sectors.

HISTORICAL CONTEXT OF FISHERIES IN MINDANAO

The fisheries sector in Mindanao is deeply intertwined with the region's history and socio-political dynamics. Mindanao has long been home to diverse indigenous communities, including the Tausug, Maranao, and Visayan peoples. These communities have a rich history of fishing, often relying on traditional methods passed down through generations. Over time, however, the fisheries sector has faced numerous challenges, including underdevelopment, poor infrastructure, and limited access to markets.

Historically, government investments in Mindanao's fisheries were limited, with national priorities often focusing on agriculture and industrialization in other parts of the country. The region's geopolitical situation further complicated development efforts. Since the 1970s, Mindanao has faced internal conflicts and the rise of armed separatist movements, making it difficult to implement cohesive development programs. These factors have contributed to the slow development of the fisheries sector, leading to poor resource management, underinvestment, and weak governance structures (Rola & Castillo, 2017).

In addition to political instability, Mindanao's fisheries sector has been affected by the effects of globalization. While international markets have created opportunities for the export of high-value fish species like tuna, these markets also come with high demands for quality and sustainability. This has led to a two-tier market structure, where large export-oriented fishers benefit from higher prices and international trade, while small-scale fishers struggle to meet these standards and often sell their catch locally at lower prices (Balisacan & Hill, 2003).

The rise of environmental challenges, particularly overfishing and the depletion of fish stocks, has compounded the difficulties faced by local fishers. Mindanao, known for its rich marine biodiversity, is witnessing the decline of important fish species, and many coastal communities are feeling the effects of unsustainable fishing practices. This has sparked efforts to introduce better resource management practices and more sustainable fishing methods. However, many of these initiatives remain small-scale or insufficiently coordinated, exacerbating the already fragile situation (Grafton et al., 2010).

FINANCIAL CHALLENGES AND THE ROLE OF BROKERS

A major issue that has plagued small-scale fishers in Mindanao for decades is limited access to formal financial services. The sector's high-risk nature, coupled with the lack of collateral and financial literacy among fishers, has made it difficult for them to access loans from banks or other formal financial institutions (Bardhan, 2005). Consequently, many fishers are forced to rely on informal credit arrangements, often provided by local middlemen or brokers.

In this context, the Cagayan de Oro brokerage has become a vital source of financial support for many small-scale fishers in the region. The brokerage offers a unique financing model that addresses the liquidity issues faced by fishers. Unlike traditional financial institutions, the brokerage provides cash advances to fishers based on their expected catch, allowing them to purchase fuel, repair boats, and pay for crew wages. This form of financing is critical in an environment where fishers often experience irregular incomes due to seasonality and unpredictable market conditions (Lyon, 2015).

The brokerage's cash advance system is designed to be flexible, which allows fishers to repay their debts gradually, based on the amount of catch they sell through the brokerage. This structure reduces the burden on fishers, who are often at the mercy of unpredictable fishing outcomes. By operating on the basis of trust and mutual understanding, the brokerage fosters a relationship that benefits both the fishers and the intermediary. However, challenges remain. For example, fishers who depend heavily on a single broker for financing may face risks of being exploited, as their negotiating power is limited (Chowdhury & Ahmed, 2012).

Despite these risks, the brokerage's ethical approach sets it apart from exploitative middlemen, who often take advantage of the vulnerability of fishers. Ms. Shalom Floro's leadership prioritizes transparency, fairness, and long-term partnerships with fishers. She ensures that the terms of repayment are flexible and fair, even in times of low catch. This flexibility allows fishers to maintain their livelihoods without being burdened by excessive debt or punitive financial terms. The brokerage's approach highlights how ethical intermediaries can play a positive role in providing financial support while maintaining fair relationships with producers (Abed, 2016).

GOVERNANCE STRUCTURES AND RELATIONAL DYNAMICS

The governance structure of the brokerage is based on relational dynamics that emphasize trust and mutual accountability. The system is grounded in the principles of community-oriented governance, where fishers and brokers work together towards shared goals. This approach contrasts with more transactional, market-

driven models where the relationship between buyers and sellers is purely contractual (Granovetter, 1985).

In the context of fisheries value chains, relational governance offers significant advantages. It fosters long-term partnerships, reduces the likelihood of opportunistic behavior, and enables fishers to have more reliable access to financial and market resources. However, there are also limitations to relational governance. The lack of formal contracts and agreements may lead to misunderstandings or disputes, especially when market conditions fluctuate or fishers encounter poor catches (Sabel, 2016).

The absence of formal structures means that there is a degree of uncertainty in the relationship between fishers and brokers. While trust is central to the functioning of this model, there are instances where misalignments in expectations may lead to conflicts. Furthermore, the brokerage's reliance on informal governance structures limits its ability to scale operations or replicate its model in other regions without significant adaptations (Borrás & Tödtling, 2009).

One potential solution to strengthen the governance of fisheries value chains is the establishment of cooperatives or fishers' councils. These organizations could serve as intermediaries between brokers and fishers, providing a platform for more formalized contracts and standardized pricing structures. By incorporating elements of both relational and formal governance, the value chain could improve its overall efficiency, transparency, and sustainability (Kraak, 2011).

INSIGHTS FROM THE FISH LANDING SITE

The fish landing site in Cagayan de Oro serves as a microcosm of the broader challenges faced by the fisheries sector in the region. Every day, fresh fish arrive from various coastal areas, where the fish are unloaded, weighed, and prepared for transport. Workers at the landing site manage these operations, ensuring that fish are handled according to market requirements.

One of the most pressing issues observed at the landing site is the lack of adequate supply chain and logistics infrastructure such as cold storage and transport networks. Fish that are not immediately sold risk spoiling, reducing their market value. The lack of

refrigeration infrastructure means that fishers must sell their catch quickly, often at lower prices, to avoid losses. Additionally, transportation costs add to the financial burden on fishers, particularly those from remote areas. The inefficiencies at the landing site highlight the need for investments in cold storage, transportation infrastructure, and improved logistics to reduce waste and increase the profitability of small-scale fishers (FAO, 2017).

Another critical issue at the landing site is the lack of value-added processes. While high-value fish species like tuna can fetch good prices, the majority of the fish caught by small-scale fishers are lower-value species like galunggong (round scad). These fish often sell for much less, and their profitability is further limited by their short shelf life. To address this, there is a need for investments in human capital and machineries to execute value-added processes such as freezing, smoking, or canning. These processes would not only extend the shelf life of the fish but also open up new markets, both domestically and internationally (Pascoe et al., 2015).

SYSTEMIC CHALLENGES IN THE FISHERIES SECTOR

The challenges faced by the fisheries sector in Mindanao are not isolated incidents but rather indicative of broader systemic issues. Overfishing remains one of the most significant threats to the sector, as unsustainable practices continue to deplete fish stocks. The lack of effective fisheries management and enforcement of regulations exacerbates the problem, as many fishers resort to illegal or destructive fishing practices to maximize their catch (Barbier, 2017).

Climate change also poses a growing threat to the sector, as rising sea temperatures and extreme weather events disrupt fish migration patterns and damage marine ecosystems. Coastal communities are particularly vulnerable to the impacts of climate change, as many of them rely entirely on fishing for their livelihoods (Allison et al., 2009). To build resilience, the sector must embrace sustainable practices, improve resource management, and adapt to changing environmental conditions which can be achieved by strengthening local partnerships.

Market inequities further compound these challenges. Small-scale fishers often face low bargaining power in negotiations with buyers, who have the advantage in

terms of resources, information, and market access. This imbalance results in fishers receiving lower prices for their catch, which is exacerbated by the rising cost of inputs like fuel, boat maintenance, and labor. These inequities hinder the growth and sustainability of the sector, making it difficult for fishers to escape the cycle of poverty (McCay & Jentoft, 1998). While the presence of effective intermediary structures such as the brokerage may alleviate this issue, small-scale fishers' access to formal financial services is a more viable long-term solution.

POLICY RECOMMENDATION

For the fisheries sector in Mindanao to achieve long-term sustainability, systemic challenges such as overfishing, market inequities, and climate change must be addressed. This requires a coordinated effort from government agencies, non-governmental organizations, local communities, and the private sector that focuses on the following:

1. Investing in supply chain and logistics infrastructure to avoid spoilage and reduce transportation costs
2. Providing capacity building and machineries particularly to small scale fishers to increase the value of fish
3. Implementing regulations promoting sustainable fishing practices
4. Strengthening local partnerships to ensure that the value chain remains viable in the face of future challenges
5. Addressing the barriers that small-scale fishers face in accessing formal financial services, while continuing to support effective intermediary structures

CONCLUSION

The case study of the Cagayan de Oro brokerage offers several valuable insights into how fisheries value chains can be restructured to promote inclusivity and sustainability. By providing access to finance, market access, and fair governance structures, the brokerage has been able to empower fishers and create a more equitable value chain. The ethical approach to brokering

fish trade provides an example of how intermediaries can play a positive role in overcoming the challenges faced by small-scale fishers.

The case study also highlights the critical importance of trust and relationships in fisheries value chains. The personal and family ties between brokers, fishers, and retailers contribute to a level of cooperation that is essential for success in this sector. However, it is necessary to ensure that these relationships are grounded in fairness and that the interests of all stakeholders are properly represented. By continuing to build inclusive governance structures and promoting fair trade practices, the fisheries sector in Mindanao could set a model for inclusive growth and sustainable development, not just for the region, but potentially for similar sectors in other parts of the country.

Ultimately, the role of intermediaries such as the Cagayan de Oro brokerage in facilitating access to finance and markets cannot be underestimated. By focusing on the long-term development of the fisheries sector, addressing environmental and market challenges, and improving governance, it is possible to create a more inclusive value chain that benefits all stakeholders, from small-scale fishers to larger market players. This, in turn, would contribute to reducing poverty and promoting shared prosperity in the region. Future research into the dynamics of these value chains, especially with a focus on the role of financing and social capital, could provide valuable insights for policymakers and development practitioners working to improve the livelihoods of smallholder fishers and others in rural, underserved areas.

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