



ACPC Monitor

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ACPC 's Position on the Proposed Amendments to the Agri-Agra Law

Introduction

It has long been ACPC's assessment that PD 717 (Agri-Agra Law) does not guarantee improved small farmer credit access because lending to agriculture generally remains unattractive compared to other sectors primarily due to the greater credit risk involved. Agriculture financing in general, and lending to small farmers in particular, remains less profitable than non-agriculture lending. As a result of the decree, the ability of banks to make optimal lending portfolio decisions has only been constrained, thus increasing their opportunity costs. Borrowers consequently absorb these costs in the form of higher interest rates.

Hence, while PD 717 is well-intentioned, it has not been effective in enhancing small farmers' access to bank credit. Quite to the contrary, in fact, it only further constrains small farmer borrowing.

This is the reason ACPC has mainly advocated for either the abolition of the law or, at the very least, its amendment to allow market-determined alternative forms of compliance which do not create or perhaps even minimize distortions in the credit market. Moreover, in order to help increase the flow of credit to the agrarian sector, greater support and attention should instead be given to specific measures/strategies (other than PD 717) that aim to encourage banks to lend to the sector. These strategies include the following:

1. The implementation of the AFMA-mandated Agro-Industry Modernization Credit and Financing Program (AMCFP). To the extent that it is guided mainly by the principle of sustainability, the AMCFP has great potential to improve the outreach of funds that government has allocated for agricultural credit;
2. The design and implementation of innovative financing schemes (IFS) that cater particularly to small rural borrowers who lack collateral. IFS are currently being designed and piloted jointly by ACPC, Land Bank and QUEDANCOR. These schemes are meant to address the

problem of credit access for small borrowers, given that the measures to improve their viability will only be realized over the longer term;

3. Improving the creditworthiness and absorptive capacity of small farmers and fisherfolk particularly through institution-building activities (such as those being implemented by ACPC) and the development of basic rural infrastructure.

It is in the light of this position on PD 717 that the following comments on House Bill Nos. 104, 658, 2166 and 1930 are being presented.

Specific Comments on the Bills

On HB 104 : An Act Expanding the Coverage of and the Conduit Network for Agri-Agra Credits, Prescribing a Fixed Percentage of the Funds for Lending to Small Farmers and Fisherfolk, and for other Purposes Thereby Amending PD 717, Otherwise Known as Agri-Agra Law (Cong. Augusto Syjuco)

- *On the proposed amendment to Section 3, adding "OF WHICH FIFTY PERCENT (50%) SHALL BE MADE AVAILABLE TO SMALL FARMERS AND FISHERFOLK AS WELL AS SMALL FARMERS AND FISHERFOLK COOPERATIVES..."*

➤ It must be pointed out that as far as their compliance with PD 717 is concerned, banks are clearly having difficulty mainly with the 10% quota for agrarian lending as against the 15% for agriculture & fisheries lending. Despite this, they have exceeded the 25% total quota mandated by the law for agri-agra lending for FY 2000 due to overcompliance with the 15% quota for agri & fisheries lending (refer to Table 1). The agrarian component of the quota, however, is precisely what caters to small farmers (i.e., agrarian reform beneficiaries are made up mainly of small farmers). In other words,

since the 10% quota for agrarian lending has already failed to ensure the flow of more bank loans to the small farmer sector (even despite the availability of alternative forms of compliance), it is a bit difficult to reconcile how a 12.5% quota (i.e., 50% of the 25% agri-agra loan quota) for small farmers (and fisherfolk) would in turn address the perceived credit gap. In this regard, the following alternatives may be considered instead:

► It is suggested that the Agricultural Credit Policy Council (ACPC), which is an attached agency of the DA, be specifically identified to represent the DA under this provision. Further, the addition of a provision for monitoring the compliance of banks and for reiterating the joint mandate of BSP and ACPC in the same, is likewise suggested.

	1999				2000			
	KB's	RB's	TB's	ALL	KB's	RB's	TB's	ALL
Total Loanable funds generated	858.7	36.9	95.0	990.6	763.7	32.8	91.9	888.4
25% Minimum. requirements	214.7	9.2	23.8	247.7	190.9	8.2	23.0	222.1
10% Agrarian Reform Credits	85.9	3.7	9.5	99.1	76.4	3.3	9.2	88.8
15 % Agricultural Credit	128.8	5.5	14.3	148.6	114.6	4.9	13.8	133.3
Total Compliance								
10% Agrarian Reform Credits	37.8	3.0	8.9	49.7	65.1	4.7	8.8	78.6
15 % Agricultural Credit	147.4	14.8	10.0	172.3	174.5	11.9	12.4	198.8
25% Min. requirements	185.2	17.8	18.9	221.9	239.5	16.6	21.2	277.4
Alternative Compliance								
10% Agrarian Reform Credits	24.8	0.1	7.0	31.9	36.7	0.6	7.9	45.2
15 % Agricultural Credit	12.3	1.5	0	13.8	12.0	0.1	4.0	16.0
25% Min. requirements	37.0	1.7	7.0	45.7	48.7	0.7	11.9	61.2
Excess (Deficiency)								
10% Agrarian Reform Credits	(48.1)	(0.7)	(0.6)	(49.4)	(11.3)	1.4	(0.4)	(10.2)
15 % Agricultural Credit	18.6	9.3	(4.2)	23.7	59.9	7.0	(1.4)	65.5
25% Min. requirements	(29.5)	8.6	(4.8)	(25.7)	48.6	8.4	(1.8)	55.3
Compliance Ratio (%)								
10% Agrarian Reform Credits	4	8	9	5	9	14	10	9
15 % Agricultural Credit	17	40	11	17	23	36	13	22
25% Min. requirements	22	48	20	22	31	51	23	31

1. That the 25% loan quota for agri-agra be treated as a generic quota, i.e., providing no specific sub-quotas for agrarian, agriculture and fisheries lending. This alternative allows banks to have flexibility in the allocation of their loan quota among the different beneficiary sub-sectors. This also provides better incentive compatibility to the extent that banks can lend on the basis of project viability, and borrowers are given their share of the responsibility in ensuring that the project/s that they identify and undertake are indeed viable/profitable.
 2. Meanwhile, "non-bankable" ARBs and small fisherfolk should instead be provided with seed funds in the form of grants and not credit, along with other support services that will help them start and raise the productivity of their land and/or other sources of livelihood. The provision of start-up funds should be complemented by training and other capacity-building activities that will eventually help improve their creditworthiness.
- On the proposed amendment to Section 4, providing that "the Department of Agriculture and the Department of Agrarian Reform shall promulgate such rules and regulations as may be necessary to implement the provisions of this ACT..."

On HB 658 : An Act Granting Farmers, Fishermen and Enterprises with Capitalization Not exceeding P500,000 more Access to Credit Facilities, Amending for the Purpose PD 717, Otherwise Known as the Agri-Agra Law (Cong. Oscar S. Rodriguez)

and

HB 2166 : An Act Amending Section 2 and Section 3 of PD 717, Otherwise Known as the Agri-Agra Law and for Other Purposes (Cong. Josephine Y. Ramirez-Sato)

- On the proposed amendment to Section 3, adding that "AT LEAST SEVENTY-FIVE PERCENT (75%) OF THE RESERVED FUND SHALL BE STRICTLY UTILIZED FOR RURAL CREDIT. THE DISPOSITION OF THE REMAINING TWENTY-FIVE PERCENT (25%) WILL BE LEFT TO THE DISCRETION OF THE FINANCIAL INSTITUTIONS, HOWEVER, SUCH FUND CANNOT BE USED TO BUY GOVERNMENT SECURITIES ..."

► On the average, 99% of total annual production loans granted by banks come from private banks, of which around 96% are from commercial banks (refer to Table 2). Despite this, it is the commercial banks which conspicuously fell short of compliance with their agrarian lending quota in FY 2000. This only proves that

despite their greater liquidity, urban-based banks experience the greatest difficulty in providing agrarian loans, and this is mainly due to the greater information gap faced by commercial banks in delivering rural credit. Hence, while commercial banks have the resources for providing loans to the rural sector, they are hampered by lack of access to information about rural borrowers. Such information, on the other hand, is more accessible to rural-based lenders, such as rural banks and government financial institutions (GFIs). It is for this reason that commercial banks should therefore be allowed the option of coursing their loanable funds for agri-agra through rural-based lending institutions, either in the form of loans and/or deposits to rural-based banks, rediscounting facilities, subscription to bonds issued by GFIs, etc.

Moreover, the types of projects to be assisted through the proposed Rural Agricultural Development Credit & Financing System (RADCFs) mentioned in Section 6 of the House Bill are essentially also in the list of eligible projects under the AMCFP. In other words, the RADCFs may consider adopting the relevant sections of the Implementing Guidelines of the AMCFP and perhaps simply make some modifications, if necessary, for purposes of consistency as well as practicality.

Like the RADCFs, which is proposed to be accounted for separately as these are mainly sourced from the private sector, AMCFP funds, on the other hand, will also be booked separately for proper monitoring. The AMCFP can also accept funds from various sources, both public and private as stipulated in the law.

Table 2. Loans Granted by Banks to Agriculture by Type of Banks

By type of banks	1997		1998		1999		2000 ^P	
	Amount (billion pesos)	% Share	Amount (billion pesos)	% Share	Amount (billion pesos)	% Share	Amount (billion pesos)	% Share
Government banks	49.19	0.5	64.10	0.5	54.03	0.4	62.81	0.4
DBP	26.05	0.3	36.69	0.3	39.98	0.3	37.02	0.2
LBP	23.14	0.2	27.41	0.2	14.05	0.1	25.78	0.2
Private banks	10,118.34	99.5	12,022.46	99.5	13,692.82	99.6	15,040.03	99.6
PKBs	9,630.04	94.7	11,642.66	96.3	13,218.05	96.2	14,447.75	95.7
TBs	467.61	4.6	341.51	2.8	433.23	3.2	551.89	3.7
PDBs	197.85	1.9	101.02	0.8	178.32	1.3	173.03	1.1
SMBs	211.06	2.1	199.16	1.6	220.48	1.6	329.09	2.2
SSLAs	58.70	0.6	41.33	0.3	34.42	0.3	49.77	0.3
RBs	20.68	0.2	38.29	0.3	41.54	0.3	40.38	0.3
TOTAL	10,167.53	100.0	12,086.56	100.0	13,746.84	100.0	15,102.84	100.0

On HB 1930 : An Act Providing for a Rural-Agricultural Development Credit and Financing System, Creating for the Purpose the Rural Agricultural Development Council (RADC) and for Other Purposes (Cong. Robert Ace Barbers)

- On Sections 5 & 6 – Creation & Composition of the Rural Agricultural Development Council (RADC) and its Functions.

► Some of the proposed functions of the RADC are, to some extent, already being or have been performed by existing government programs and agencies. For instance, parameters for target beneficiaries were also set when the implementing guidelines of the Agro-Industry Modernization Credit & Financing Program (AMCFP) were recently crafted. The creation of the AMCFP is mandated by AFMA and will come from the consolidation of all agricultural directed credit programs (Agri-DCPs). Crafting of the AMCFP guidelines, meanwhile, was led by the ACPC, which has for its members the Secretaries of the DA (Chair), NEDA, DoF, DBM and the Governor of the Bangko Sentral ng Pilipinas (Vice-Chair).

As to regular reviews, the AMCFP Implementing Guidelines also grants the role of program monitoring and evaluation to the ACPC, which shall also be responsible for making appropriate recommendations with respect to program direction and implementation. In the case of banks' compliance with the Agri-Agra Law, ACPC – through its Secretariat and in coordination with the BSP – is also tasked with monitoring the same.

Finally, the design and testing of innovative financing schemes for the rural/agricultural sector is another role that is also presently being carried out by the ACPC. In fact, ACPC has two schemes currently programmed for piloting. These are the (a) Special Agricultural Financing Window-cum-Guarantee, which capitalizes on the role of the informal financial markets in order to improve credit access for small farmers and fisherfolk; and the (b) Rural Household Business Financing (RHBF) Program, which principally aims to support other viable small home or rural industries linked to the main livelihood of the community or farm household.

Therefore, given the ongoing role of ACPC in performing most of the functions being proposed for the RADC, either of two things could be considered: (a) the composition of the ACPC can be expanded to include the other proposed members of the RADC, whereupon the functions of the RADC can instead be ascribed to the

expanded ACPC; or (b) the ACPC could be renamed into the RADC, whereupon the RADC shall also take on the other existing functions of ACPC aside from those being proposed in the House Bill.

- *On Section 8 – Other Modes of Compliance.*
 - While item *f* (i.e., development loans to finance educational institutions, hospitals and other medical services, socialized or low-cost housing and to local government units without national government guarantee) is an existing mode of alternative compliance to PD 717, we nevertheless do not agree with its continued inclusion as such inasmuch as, unlike the other modes of alternative compliance, it does not directly reinforce the intention of improving the flow of financial support to the intended beneficiaries of the credit allocation – the small farmers. In fact, this mode of compliance only supports the diversion of funds away from the agrarian sector, which is where banks have generally undercomplied insofar as the mandatory loan allocation is concerned. Besides, the services cited in item *f* would certainly be induced to follow once the viability of rural-based projects become

enhanced (through the other alternative modes of compliance) and the income positions of rural folk improve.

- *On Section 9 – Annual Reports.*
 - Again, the preparation of annual reports on lending institutions' compliance with the PD 717 mandatory credit allocation is already being done by the ACPC. We nonetheless suggest that the joint mandate of BSP and the ACPC in this activity be reiterated in the Bill.

Concluding Remarks

It cannot be overemphasized that banks are in the lending business to make profit. Since agriculture continues to be perceived as not a profitable undertaking, ACPC believes that the answer to the problem of agricultural credit access lies in addressing the problem of non-viability of agriculture and the agrarian reform sectors. Once this is solved, ACPC is confident that credit will readily flow to these sectors.

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