Improving Credit Access for the Food and Agriculture Sector through Enhanced Implementation of Existing Policies and New Strategies

UPSE-PCED Seminar
October 1, 2014
UPSE Room 303
OUTLINE OF PRESENTATION

I. Agriculture in the Philippines

II. Existing government programs & challenges

III. Recommendations

IV. Summary & Conclusion
AGRICULTURE IN PH

- 30.9% of the labor force employed in agriculture
- 40.6% of total land area is agricultural
- 51% of total population lives in rural areas
- But agriculture’s GDP share is declining:

  29.7% in 1946 > 21% in 1995 > 12% in 2013
• Farmers and fishermen among the lowest-paid workers

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average daily basic pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>P165.27 (farmers)</td>
</tr>
<tr>
<td>Industry</td>
<td>P191.68 (fishermen)</td>
</tr>
<tr>
<td>Services</td>
<td>P328.46</td>
</tr>
<tr>
<td></td>
<td>P383.46</td>
</tr>
</tbody>
</table>

Bureau of Labor and Employment Statistics, January 2014
AGRICULTURE IN PH

Distribution of *Pantawid Pamilyang Pilipino* Program Households Engaged in Farming, Fishing and/or Forestry

- HH engaged in farming, fishing and/or forestry: 51.1%
- Others: 48.9%

Department of Social Welfare and Development, as of 6 August 2014
GOV’T PROGRAMS & CHALLENGES

• Small farmers and fisherfolk cannot easily access the formal financial system.
• Most mechanisms needed to channel more funds to the food and agriculture sector are already in place.
• Study includes following gov’t programs:
  1. Agro-Industry Modernization Credit and Financing Program (AMCFP)
  2. Agri-Agra Law (RA 10000)
  3. Credit Guarantee
  4. Crop Insurance
  5. Other agri/agra-credit issues
WHY IS AGRI-AGRA LENDING RISKY?

- Productivity very dependent on the unpredictable weather
- Sector’s profitability hampered by lack of rural infrastructure
- Restrictions on CARP-distributed land
- Information asymmetry
1. AGRO-INDUSTRY MODERNIZATION CREDIT AND FINANCING PROGRAM

- Created to facilitate small farmers’ & fisherfolk’s (SFFs) access to credit
  - After Agriculture and Fisheries Modernization Act (AFMA) of 1997 phased-out all agricultural direct credit programs (DCPs)
- Supervised by the Agricultural Credit Policy Council; uses a wholesaler-retailer approach
- Four lending facilities have extended P2.7 billion to 90,803 small farmers and fisherfolk (As of December 2013).
- Suffers from insufficient funding
2. AGRI-AGRA LAW (RA 10000)

- Requires banks to allocate at least 25% of their net loanable funds for agricultural credit:
  - 15% for general agri credit (agri)
  - 10% for agrarian reform sector (agra)
- Rationalized alternative compliance mechanisms
2. AGRI-AGRA LAW (RA 10000)

- From 2003-2005, banking industry met the 25% mandated allocation.
- Between 2006-2010:
  - Average agri compliance: **13.9%**
  - Average agra compliance: **9.5%**
- In 2011:
  - Over-compliance in agri with **27%**
  - Under-compliance in agra with **3.4%**
## BANK COMPLIANCE TO RA 10000, IN P BILLIONS

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Total</th>
<th>UKBs</th>
<th>TBs</th>
<th>RCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Total Loanable Funds</td>
<td>1,129.81</td>
<td>1,046.84</td>
<td>51.27</td>
<td>31.70</td>
</tr>
<tr>
<td>B. Minimum Allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. 15% Agri</td>
<td>169.47</td>
<td>157.03</td>
<td>7.69</td>
<td>4.76</td>
</tr>
<tr>
<td>2. 10% Agra</td>
<td>112.98</td>
<td>104.68</td>
<td>5.13</td>
<td>3.17</td>
</tr>
<tr>
<td>3. Total</td>
<td>282.45</td>
<td>261.71</td>
<td>12.82</td>
<td>7.93</td>
</tr>
<tr>
<td>C. Agri Compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Direct</td>
<td>106.62</td>
<td>75.43</td>
<td>14.39</td>
<td>16.80</td>
</tr>
<tr>
<td>2 Alternative</td>
<td>136.69</td>
<td>132.75</td>
<td>3.23</td>
<td>0.70</td>
</tr>
<tr>
<td>3. Total</td>
<td>243.31</td>
<td>208.18</td>
<td>17.62</td>
<td>17.50</td>
</tr>
<tr>
<td>4. % Compliance</td>
<td><strong>21.54%</strong></td>
<td><strong>19.89%</strong></td>
<td><strong>34.37%</strong></td>
<td><strong>55.21%</strong></td>
</tr>
<tr>
<td>D. Agra Compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Direct</td>
<td>21.89</td>
<td>11.41</td>
<td>1.95</td>
<td>8.54</td>
</tr>
<tr>
<td>2. Alternative</td>
<td>1.94</td>
<td>0.77</td>
<td>0.42</td>
<td>0.75</td>
</tr>
<tr>
<td>3. Total</td>
<td>23.83</td>
<td>12.18</td>
<td>2.37</td>
<td>9.29</td>
</tr>
<tr>
<td>4. % Compliance</td>
<td><strong>2.10%</strong></td>
<td><strong>1.16%</strong></td>
<td><strong>4.63%</strong></td>
<td><strong>29.30%</strong></td>
</tr>
<tr>
<td>E. Total compliance vs 25%</td>
<td>23.62%</td>
<td>21.05%</td>
<td>39.00%</td>
<td>84.51</td>
</tr>
</tbody>
</table>

_Bangko Sentral ng Pilipinas, as of December 2012, BSP data_
3. CREDIT GUARANTEE

- Agricultural Guarantee Fund Pool (AGFP) created in 2008
- Credit guarantees to encourage banks to lend to high-risk sector like agri-agri
- Covers up to 85% of loan exposure
- Starting with 19 banks in 2008, 67 banks now have guarantee lines with AGFP
- AGFP needs to further expand coverage
4. CROP INSURANCE

- Insurance facilities through the Philippine Crop Insurance Corp. (PCIC)
- PCIC penetration rate:
  - 2012: 4% or 311,388 SFFs
  - 2013: 8% or 732,654 SFFs
- 2014: Allocated P1.2 B to cover full cost of insurance premium in 20 priority provinces
- Pilot-testing index-based insurance products
  - Weather Index-based Insurance (WIBI)
  - Area-based Yield Index Insurance (ARBY)
- PCIC’s capitalization is only P2 billion.
Agrarian Reform

- CARL of 1988 and CARP(er) of 2009
- Ownership of land has not improved small farmers’ access to formal credit.
- CARP restrictions discourage banks from lending to the agra sector.
  - Prohibitions on transferability
  - Arbitrary ceiling on land ownership
- Banks prefer to pay the penalties for non-compliance than bear the risk of lending to agra.
5. OTHER AGRI/AGRA-CREDIT ISSUES

- Insufficient funding for AMCFP
  - Gov’t still needs to assist small farmers.
  - AMCFP develops financing schemes for farmers and fisherfolk that have no access to formal credit.
  - Lack of resources limits AMCFP’s capability to create more lending programs for small borrowers.
  - AFMA allocated P12 billion for AMCFP; only P1 billion has been released.
RECOMMENDATIONS: NEAR-TERM

- Implement the national credit bureau
  - Reduce cost of doing credit investigations to help reduce cost of lending.
  - Credit Information Corp. will address info asymmetry and help reduce lending costs passed-on to borrowers.
  - Targeted start of Credit Information Corp.’s operations is 2015 yet.
RECOMMENDATIONS: NEAR-TERM

- Approve guidelines on certification of alternative compliance methods
  - Once the guidelines are approved, ACPC can start certifying debt securities and begin accrediting rural financial institutions.
  - Provide more channels to mobilize funds for agri-agra, esp. agra
  - Pending DAR’s co-approval.
RECOMMENDATIONS: NEAR-TERM

- Strengthen risk-mitigating mechanisms
  - Increase PCIC’s capitalization to P10 billion
    - HB 469 approved by Committee on Appropriations
    - PCIC to increase penetration rate to 35-40%, equivalent to 3.7 million small farmers & fisherfolk.
  - Fund roll-out of new insurance programs
RECOMMENDATIONS: NEAR-TERM

- Strengthen risk-mitigating mechanisms
  - Credit guarantee
    - Incentivize availing of both crop insurance and credit guarantee
    - 50% discount on guarantees if loan is covered with crop insurance
    - Harmonize benefits and expand coverage of both AGFP and PCIC.
<table>
<thead>
<tr>
<th>REASON OF DEFAULT</th>
<th>GUARANTEE CLAIMS PAID</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Borrowers</td>
<td>Amount</td>
<td>Percent Share</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>21,547</td>
<td>630,152,792.34</td>
<td>100.00%</td>
</tr>
<tr>
<td>Insurable Perils</td>
<td>17,673</td>
<td>535,850,207.33</td>
<td>82.02%</td>
</tr>
<tr>
<td>Drought</td>
<td>904</td>
<td>30,191,122.42</td>
<td>4.20%</td>
</tr>
<tr>
<td>Flood</td>
<td>763</td>
<td>17,465,623.65</td>
<td>3.54%</td>
</tr>
<tr>
<td>Pest and Diseases</td>
<td>9,084</td>
<td>251,506,649.41</td>
<td>42.16%</td>
</tr>
<tr>
<td>Typhoon/Calamity</td>
<td>6,922</td>
<td>236,686,811.85</td>
<td>32.13%</td>
</tr>
<tr>
<td>Non-Insurable Perils</td>
<td>3,874</td>
<td>94,302,585.01</td>
<td>17.98%</td>
</tr>
<tr>
<td>Delayed Harvest</td>
<td>50</td>
<td>826,730.60</td>
<td>0.23%</td>
</tr>
<tr>
<td>Diversion of Income and Other</td>
<td>2,025</td>
<td>46,142,843.30</td>
<td>9.40%</td>
</tr>
<tr>
<td>Reasons¹</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversion of Income²</td>
<td>510</td>
<td>13,226,514.32</td>
<td>2.37%</td>
</tr>
<tr>
<td>Diversion of Loan²</td>
<td>107</td>
<td>2,258,197.07</td>
<td>0.50%</td>
</tr>
<tr>
<td>Willful Default</td>
<td>94</td>
<td>4,796,719.55</td>
<td>0.44%</td>
</tr>
<tr>
<td>Others²</td>
<td>1,040</td>
<td>25,091,097.46</td>
<td>4.83%</td>
</tr>
<tr>
<td>Market Aberration</td>
<td>48</td>
<td>1,960,482.71</td>
<td>0.22%</td>
</tr>
</tbody>
</table>

1 Includes Claims Paid up to December 31, 2013.
2 Diversion of Income, Diversion of Loan, and Other Reasons not indicated on the list were segregated starting 2014 only.
RECOMMENDATIONS: MID- TO LONG-TERM

- Amend RA 10000
  - Reduce the arbitrary 25% mandated allocation to a more feasible number
  - Revised mandated allocation should focus more on agra component
  - Let BSP certify alternative compliance methods instead of DA and DAR.
RECOMMENDATIONS: MID- TO LONG-TERM

- Release partial amount of the P11B balance for AMCFP
  - Funding means the creation of more credit programs for small borrowers and a wider implementation of special depository model.
  - Average interest rates (as of 2007):
    - 26.7% for formal lenders
    - 63.5% for informal lenders
  - Under special depository model, interest rates will be reduced, with a cap of 15% per annum.
**RECOMMENDATIONS: MID- TO LONG-TERM**

- Explore public-private partnerships
  - UKBs with limited presence in the countryside *can tap Land Bank’s rural network.*
  - Create a pool of funds that will be specifically *lent to ARBs.*
  - To help private banks’ agra compliance while channeling more funds to ARBs.
RECOMMENDATIONS: MID- TO LONG-TERM

- Support for agro-commercial firms
  - Tax incentives, access to credit guarantee, streamline bureaucracy to attract more investments
  - Encourage firms to link up with banks with agricultural loan programs.
RECOMMENDATIONS: MID- TO LONG-TERM

- Relax CARP restrictions
  - Allow ARBs to lease their lands to agri-entrepreneurs, who can make the land more productive.
  - ARB keeps ownership of the land and tills it at the same time; lessee has access to land and pays part of lessor’s fee directly to Land Bank.
NEW STRATEGIES

- Create a CCT program for farmers
  - Half of CCT households into farming, fishing and/or forestry.
  - No nationwide program that incentivizes agricultural productivity
  - Can serve as a good exit strategy for 51% of CCT beneficiaries.
NEW STRATEGIES

- Fast-track rural infrastructure through co-financing
  - Increase gov’t budget for rural infrastructure
  - Promote co-financing with LGUs
    - LGUs that allot funds for rural infrastructure should be incentivized by the national government.
NEW STRATEGIES

- Develop a credible *quedan* system
  - “Quedar”: to deposit or to leave behind
  - *Quedan* financing system:
    1. Farmer deposits produce in a warehouse in exchange for a receipt.
    2. *Quedan* receipt can be used as collateral for a loan.
    3. When prices go up, stored produce can be sold and farmer can then pay back the loan.
  - *Quedancor* mandated to institutionalize *quedan* system for obtaining credit financing but failed.
  - Review legislation relating to warehouse deposits
  - Learn from other countries’ *quedan* experience.
## SUMMARY & CONCLUSION

<table>
<thead>
<tr>
<th>Existing policy/program/measure</th>
<th>Proposed enhancements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agri-Agra Law</td>
<td>Reduce mandated allocation and focus more on agra component and pass guidelines for alternative compliance.</td>
</tr>
<tr>
<td>Comprehensive Agrarian Reform Program with Extensions and Reforms (CARPer)</td>
<td>Allow agrarian reform beneficiaries to lease land to agri-entrepreneurs who will help make the land more productive.</td>
</tr>
<tr>
<td>Agro-Industry Modernization Credit and Financing Program (AMCFP)</td>
<td>Gradually release P11 billion balance to create more lending programs</td>
</tr>
<tr>
<td>Credit Information Corporation</td>
<td>Start operations as soon as possible</td>
</tr>
<tr>
<td>Crop Insurance</td>
<td>Pass House Bill No. 469 to increase capitalization from P2B to P10B</td>
</tr>
<tr>
<td>Poor rural infrastructure and low mechanization rate</td>
<td>Increase national budget for rural infrastructure and agri-mechanization.</td>
</tr>
</tbody>
</table>
SUMMARY & CONCLUSION

- Existing government programs can be complemented by these new strategies:
  - CCT for farmers
  - Co-financing with LGUs
  - Developing a quedan system
SUMMARY & CONCLUSION

EXISTING PROGRAMS (W/ ENHANCEMENTS)
- Agri-Agra Law
- CARPer
- Crop Insurance
- Credit Guarantee
- AMCFP
- Credit Info Corp.
- Better rural infra

NEW STRATEGIES
- CCT for farmers
- Co-financing with LGUs
- Quedan System

PRODUCTIVE, BANKABLE FOOD & AGRI SECTOR
THANK YOU!