

Partnership between AGFP and RBAP

“Building Resiliency”

By Dick Pajarillo

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A pleasant afternoon to everyone.

In behalf of Undersecretary Bernadette Puyat and AGFP we extend our greetings on the 56th Charter Anniversary of RBAP.

Vulnerable

Our country is facing one of the hardest times in history. Within a span of one month we were visited by devastating and deadly natural calamities. Torrential rains brought distress in Cabanatuan and all the way to the Cagayan Valley. The strong earthquake rocked Bohol and Cebu. Just a few days ago super typhoon Yolanda (with international name Haiyan), the strongest tropical cyclone on record to make landfall wrought havoc to provinces in the Visayas.

Thousands of families have been affected resulting in destroyed property, damaged farms and lost lives. People are in desperate need.

Currently, relief operations and restoration of power supply and communication lines are under way. Calls for cooperation and assistance are made. This is the time for helping one another.

What does this mean to me?

I think that everyone is vulnerable to acts of nature - whether rich or poor, wherever your location is, whatever you are doing for a living, we are vulnerable. What more with small farmers and fisherfolk? I think they are much more exposed to hazards. Investments on their economic activities such as loans are likewise vulnerable to risks.

AGFP and Rural Banks: Building Resiliency

The Agricultural Guarantee Fund Pool (AGFP) was created in 2008 with the Mission to mitigate risks in agricultural lending thereby facilitate the provision of credit to the agricultural sector. AGFP is a Department of Agriculture led program with Land Bank of the Philippines as Institutional Manager.

By providing guarantees to unsecured loans made by lending institutions to small farmers and fisherfolk for their food production, we serve as an instrument in the flow of formal credit to these farming households in the rural areas. Let me point out our biases:

- First are the small farmers and fisherfolk who till no more than seven (7) hectares of crop land or engage in some small scale livestock, poultry or fishery activity.
- The loans should be unsecured. AGFP guarantee serves as the security for the loan of these SFF.

We help build RESILIENCY among rural banks while performing their mandate on providing financial services towards agricultural development. Yes, I like that word, resiliency - the ability to become strong, healthy, or successful again after something bad happens or the capacity to recover quickly from difficulties.

Even with good governance and sound credit fundamentals, risks will always be there, especially in catering to the needs of the agricultural sector.

When your SFF borrowers are exposed to the elements and incur defaults, you have AGFP as a fall back. We pay 85% of the outstanding balances of loans in default.

What Has Been Done Together

At this juncture, I would like to share with you the highlights of the on-going partnership between AGFP and RBAP. For the past five years AGFP was able to provide these services to its 125 partner rural banks:

- We provided guarantee cover to a cumulative amount of P4.5 billion in loans for agricultural production.
- This represents more than a quarter of our total five year cumulative coverage of P17.4 billion.
- These involved 110, 473 loan transactions benefitting almost 72,000 small farmers and fisherfolk. Rural banks' share in the outreach of AGFP is about 23%.
- We have paid a total of P184 million in claims representing 4% of loans covered.
- Average recoveries from subrogated receivables are about 28% for the past 5 years.

This year alone (as of September 2013) we have achieved the following with rural banks:

- Guaranteed almost P1 billion in agricultural production loans to more than 16, 500 small farmers and fisherfolk.
- Paid claims amounting to P92 million or 50% of the total claims in five years! This reflects the increasing risks in agricultural lending.
- Claims ratio this year is at 9% of loans disbursed. Again, this is reflective of increasing risks.

During the past six months, after listening to feedback, our Governing Board decided to make the following policy enhancements to better serve our partners:

- Adjusted the time requirement to accept guarantee cover to 60 days (from 45 days) from date of loan disbursement.
- Adjusted the time requirement to accept request for guarantee claims to 60 days (from 30 working days).

- A CAMELS composite rating of 3 is already an acceptable for criterion for guarantee line.
- The 85% guarantee cover is now based on the gross outstanding balance of the defaulting sub-borrowers.

We have also made the following to further facilitate coordination with RBAP:

- Assigned two (2) guarantee officers to serve the servicing and claims needs of rural banks.
- Regularly participated in various federation meetings and milestone activities of RBAP.

Moving Forward

To further strengthen the partnership, AGFP and RBAP are embarking on a joint effort to inform all the other member rural banks about AGFP as well as share the best practices in agricultural lending in our country. Together, are organizing a series of regional workshops for this in cooperation with the Department of Agriculture. Our first activity will be next week, on November 21-22, 2013 at the Development Academy of the Philippines in Tagaytay City.

We hope that by next year, we would be able to serve at least 40% of RBAP membership – with your participation.

As I end this presentation I would like to reiterate the call for help among the victims of the recent calamities. Beyond material assistance which are much valued, may I also call for prayers for comfort and wisdom for the authorities on how to respond to this gigantic challenge.

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