

Empowering Rural Banks as Key Drivers for Inclusive Growth

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Resolving Issues on Agri-Agra Law and Bridging the Credit Gap in Agri-Finance

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Outline of Presentation

- * Agri-Agra Law
- * Existing Programs & Challenges
- * Recommendations

AGRI-AGRA LAW (RA 10000)

- Requires banks to allocate at least 25% of their net loanable funds for agricultural credit, of which:
 - 15% for general agri credit (agri)
 - 10% for agrarian reform sector (agra)
- Rationalized alternative compliance mechanisms to those that help advance the agriculture sector

AGRI-AGRA LAW (RA 10000)

- From **2003-2005**, banking industry met the 25% mandated allocation
- Between **2006-2010**:
 - average agri compliance was **13.9%**
 - average agra compliance was **9.5%**
- In **2011**:
 - **over-compliance** in the agri component with **27%**
 - **under-compliance** in agra with only **3.4%**
- Since 2011, banks in general, have been able to comply with the 15% agri component but fell short of the 10% agra component.

Souce: Department of Agriculture

AGRI-AGRA LAW (RA 10000)

ITEM		Rural & Coop Banks	
A. Total Loanable Funds		31.70	
B. Minimum Allocation	15% Agri	4.76	
	10% Agra	3.17	
C. Compliance with 15% Agri	Direct	16.80	
	Alternative	0.70	
	Total	17.50	(55.21%)
D. Compliance with 10% Agra	Direct	8.54	
	Alternative	0.75	
	Total	9.29	(29.30%)
E. Total compliance vs 25%		84.51	

In P billion as of December 2012, BSP data

EXISTING PROGRAMS & CHALLENGES

➤ Crop Insurance

- Philippine Crop Insurance Corporation (PCIC)
- Penetration rate up from 4.07% in 2012 to 8% in 2013
- Allocated P1.183 B to cover full cost of insurance premium in 20 priority provinces
- Weather index-based insurance and area-based yield insurance schemes
- PCIC needs more capitalization

EXISTING PROGRAMS & CHALLENGES

➤ Credit Guarantee

- Agricultural Guarantee Fund Pool (AGFP)
- Starting with 19 banks in 2008, 67 banks now have guarantee lines with AGFP
- Between 2009-2013, around 90% of guarantee claim payments were due to insurables and only 10% were due to non-insurable causes.
- AGFP needs to expand its coverage

EXISTING PROGRAMS & CHALLENGES

- **Financing Schemes under AMCFP**
 - Agro-Industry Modernization Credit and Financing Program (AMCFP) is supervised by the Agricultural Credit Policy Council (ACPC)
 - ACPC recommends the Special Depository Model
 - Instead of the wholesaler-retailer approach, credit funds will be provided to eligible rural financial institutions (RFIs) in the form of deposits
 - RFIs will manage the funds and re-lend it to small farmers and fisherfolk
 - With no more wholesaler, interest rates charged on borrowers will be reduced
- **Insufficient funding for AMCFP**

RECOMMENDATIONS

➤ Agri-Agra Law

- Ineffective in channeling 10% of banks' loanable funds to agra sector
- Amend the mandated allocation and focus on agra component

➤ Approve guidelines for certification of bonds for alternative compliance

➤ Pass House Bill No. 6883

- This will increase PCIC's capitalization from P2B to P10B and enable it to cover an estimated 3.7 million agri stakeholders (35-40% penetration rate)
- This will allow PCIC to implement specialized insurance schemes

RECOMMENDATIONS

- **Incentive for FIs that avail of both credit guarantee and crop insurance**
 - AGFP will soon grant a 50% discount on guarantee fees for FIs that avail of crop insurance from PCIC on loans subject to AGFP's credit guarantee.
 - For lenders, this means a reduction of default risk of up to 90%; for AGFP, enhanced outreach

- **Implement budget allocation for AMCFP**
 - Of the P12 B total mandated allocation, only P1B has been released by the government
 - Increased use of special depository model among RFIs

OTHER RECOMMENDATIONS

- Implement national credit bureau by Dec 2014
- Government should continue to increase its budget for rural infrastructure, promote co-financing with LGUs
- Extend the Conditional Cash Transfer (CCT) to small farmers to encourage them to make lands more productive
- Incentives for agro-commercial firms that extend financial assistance and capacity-building programs to contract growers
- Relax CARP restrictions to attract more investments in agriculture

THANK YOU!