



# Opportunities in Agricultural Lending

## Presentation to RBAP

October 2017

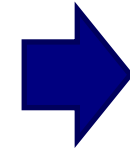
# Rural Banks were set up to

*“promote comprehensive rural development with the end in view of attaining equitable distribution of opportunities, income and wealth; a sustained increase in the amount of goods and services produced by the nation of the benefit of the people; and in expanding productivity as a key raising the quality of life for all, especially the underprivileged”*



# But what has happened?

- *“Little demand in agriculture”*
- *“RBs are already lending to farmers”*
- *“Filipino farmers don’t need to invest”*
- *“Farmers prefer non-bank lenders”*
- *“It is not profitable”*



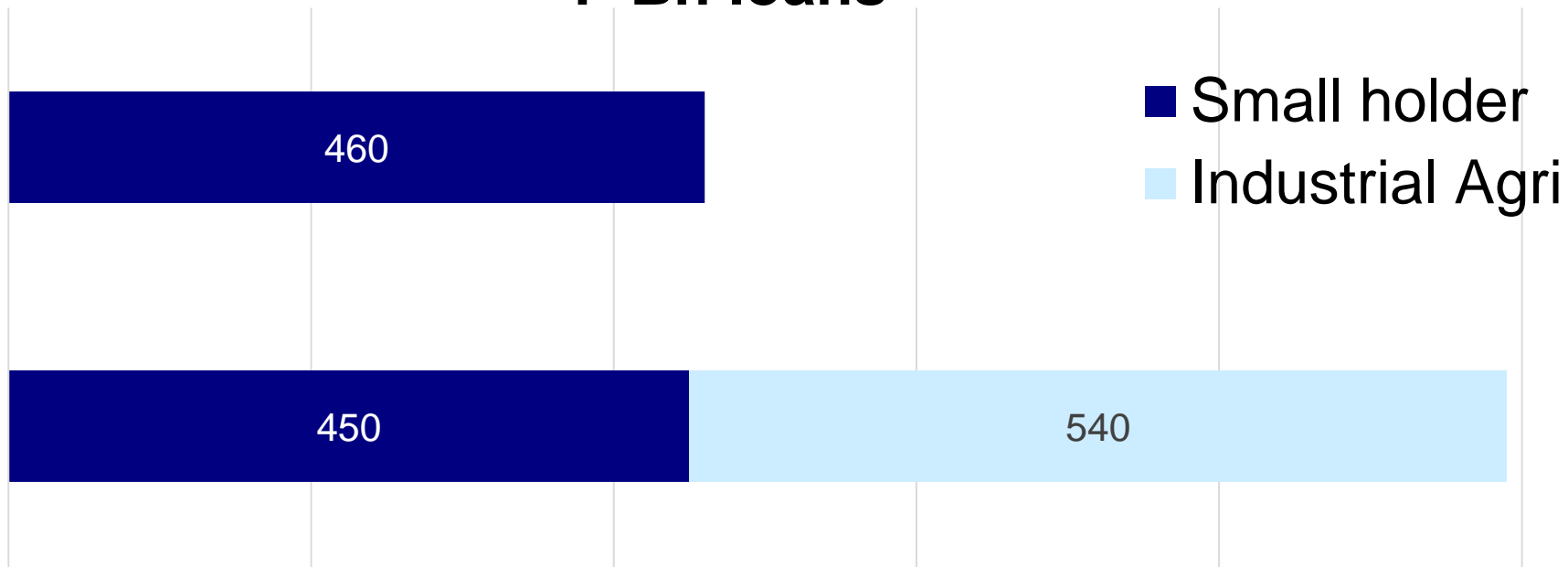
**Safe / Salary  
loans**

# Myth: “Little demand in agriculture”

P Bn loans

Based on P40k /  
ha, across 4.7m  
farmers

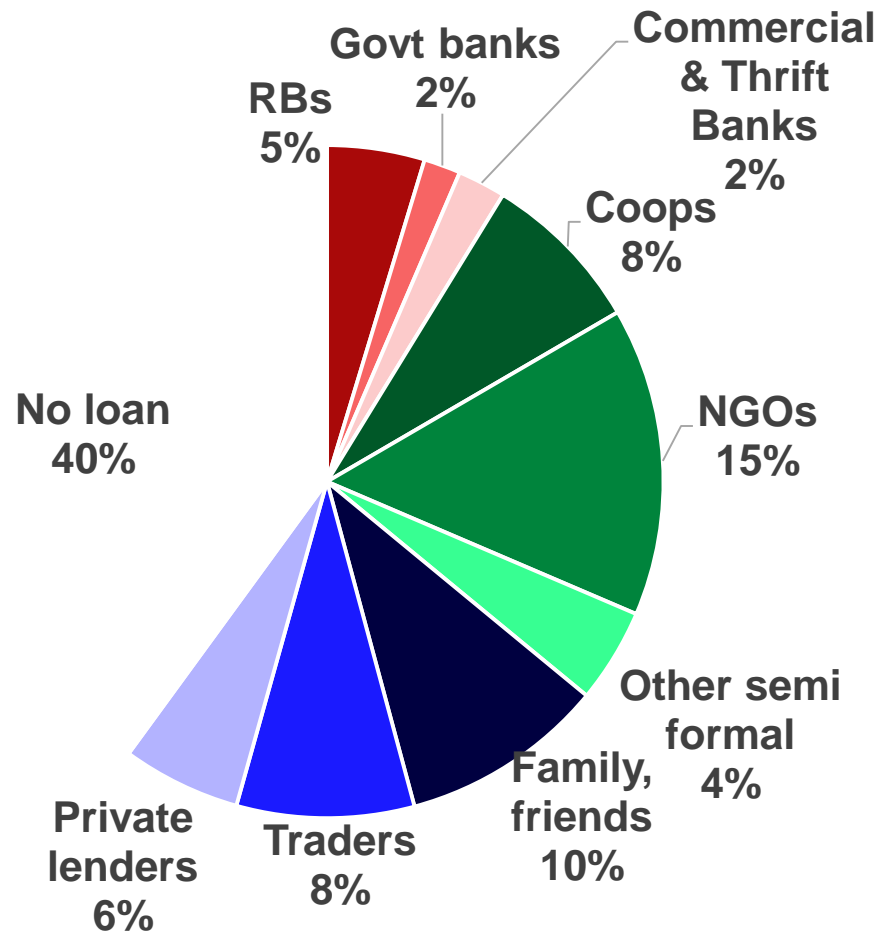
Based on BAAC  
total loans  
(adjust for 15m farmers)



**Demand should be P450bn to small farmers,  
P1.0tn to agri overall**

**rural banks providing  
2.6%**

# No Myth: Farmers use non-bank lenders

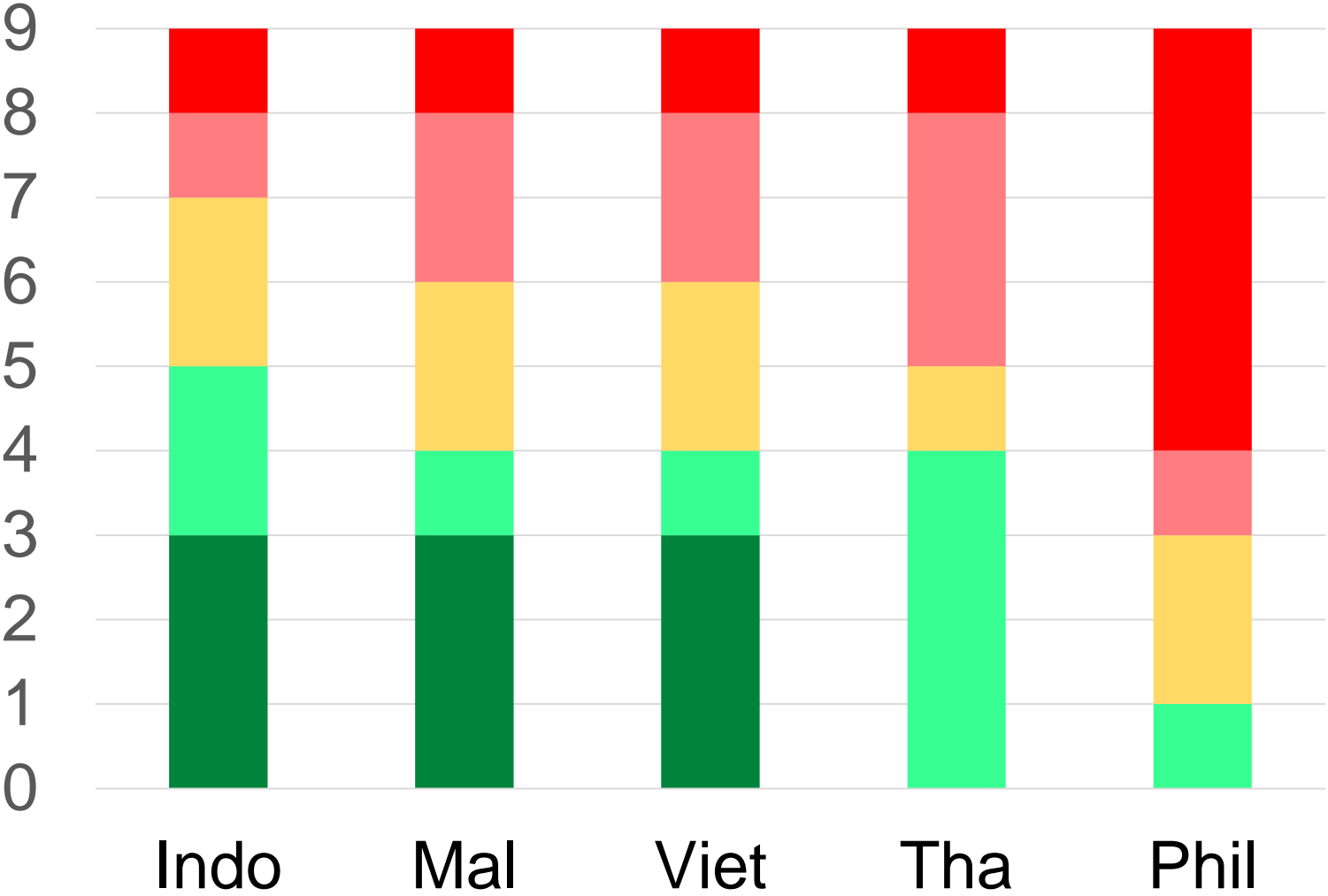


**60% borrow in  
2015 – increase  
from 47% in 1998**

**8.7% borrow from  
banks (50% RBs)  
51% from semi &  
informal**

# Myth: “Filipino farmers don’t need to invest”

Productivity per Ha per crop



Lowest productivity in 5 crops

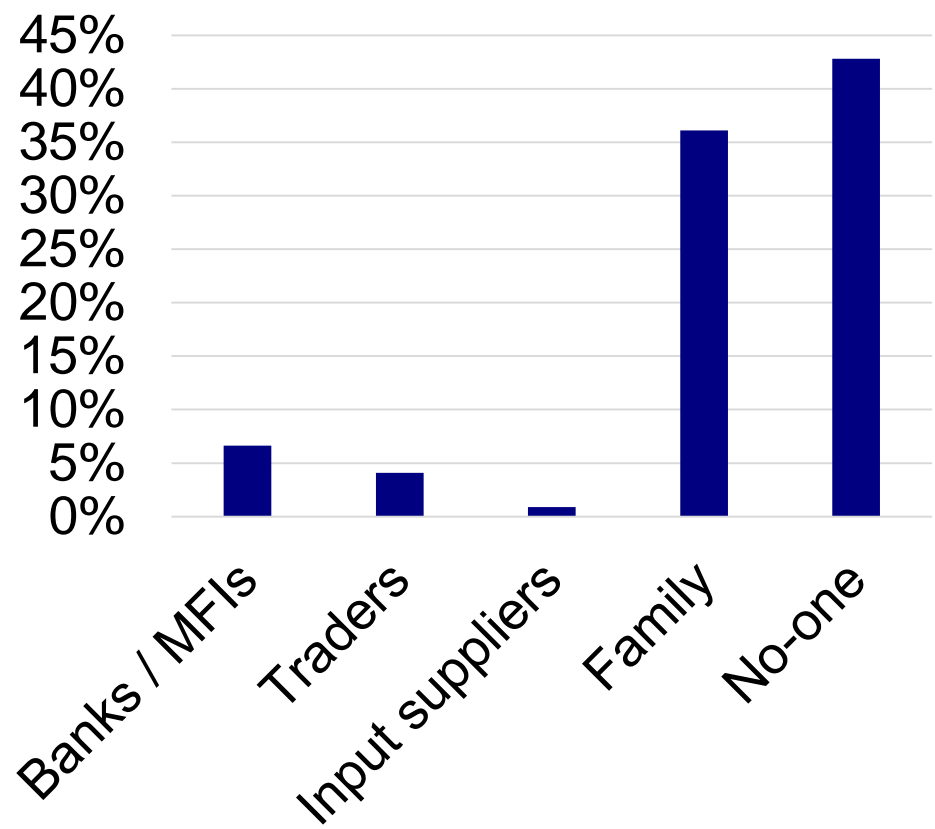
Highest productivity in none

**The Philippines:  
highest rural poverty  
(30%)**

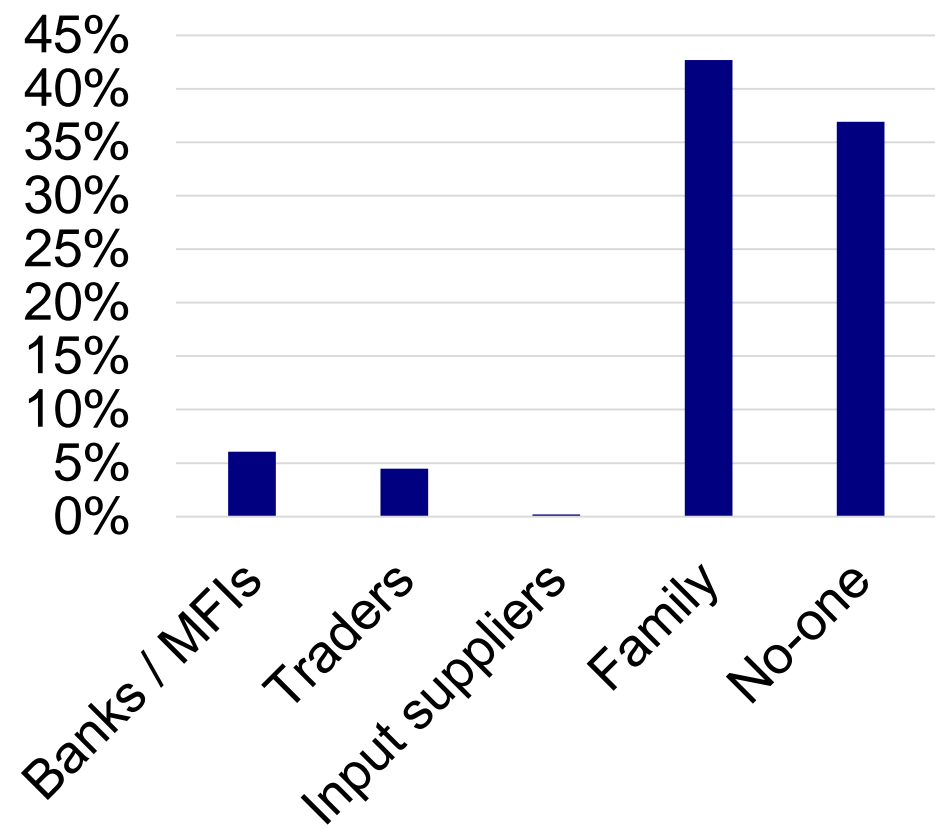
# Myth: Farmers Prefer non-bank lenders

## Survey of Rice Farmers in Bicol Region

Who is most flexible?



Who do you trust?





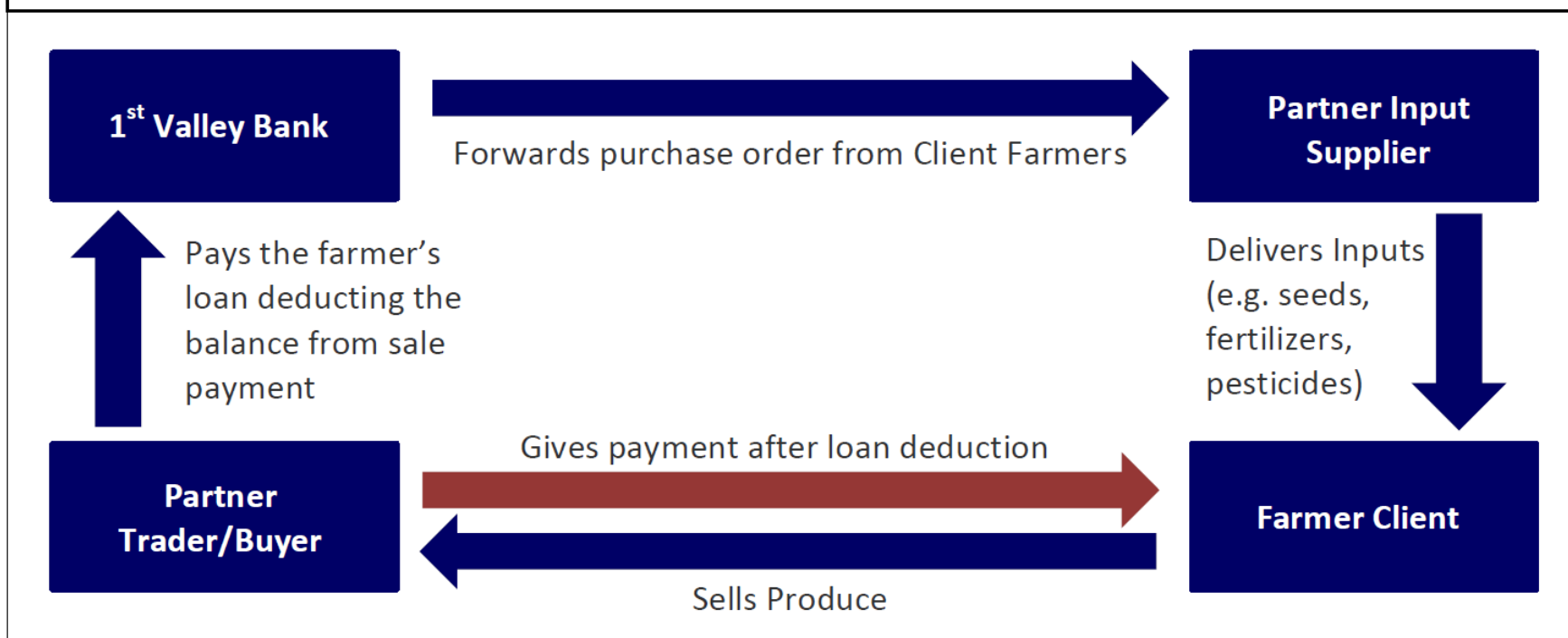
# Myth: It is not profitable

- Banks achieve 4 - 5% RoA on Supervised Loan programs (compared to 1.8% for RBs as a whole)
- Traders make (very) good margins
  - 25% per month for 4 months = 430% per year
  - or one sack of rice for every P1000 = 90% for 4 months, or 580% per year
- i.e. 32x higher interest rate than banks
- Emerging technologies to help reduce operating costs

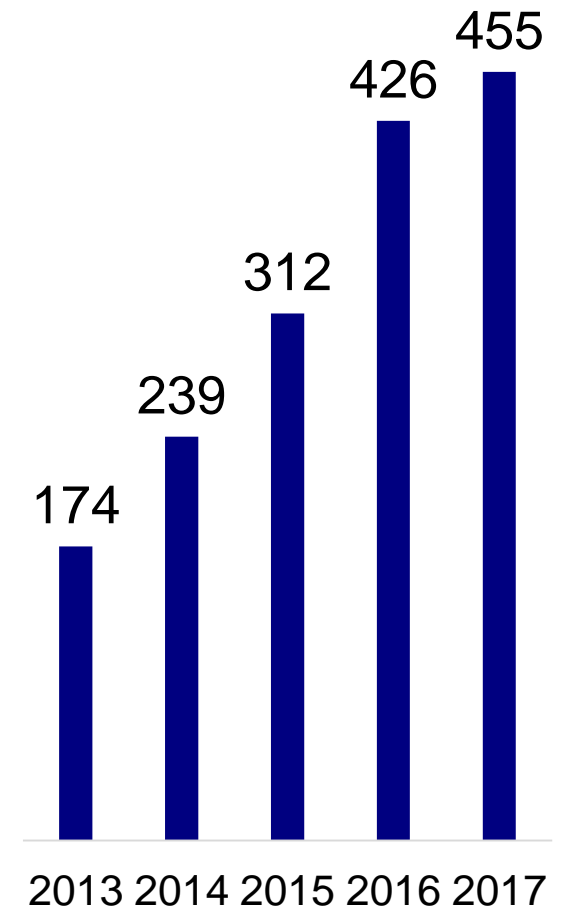


# Some ideas (1) Supervised Credit

Figure 3: Value Chain Process

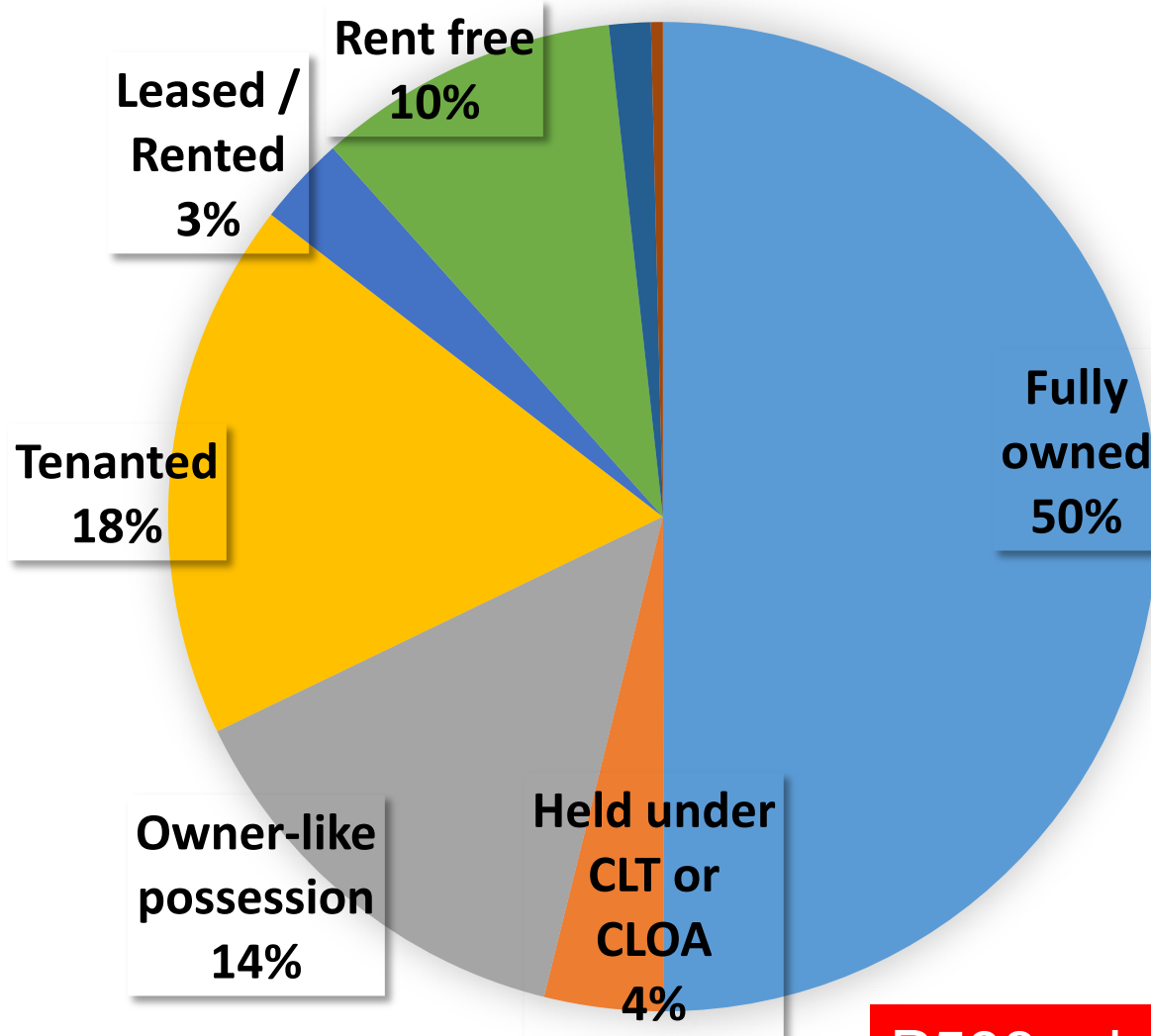


**Volume (Pm)**

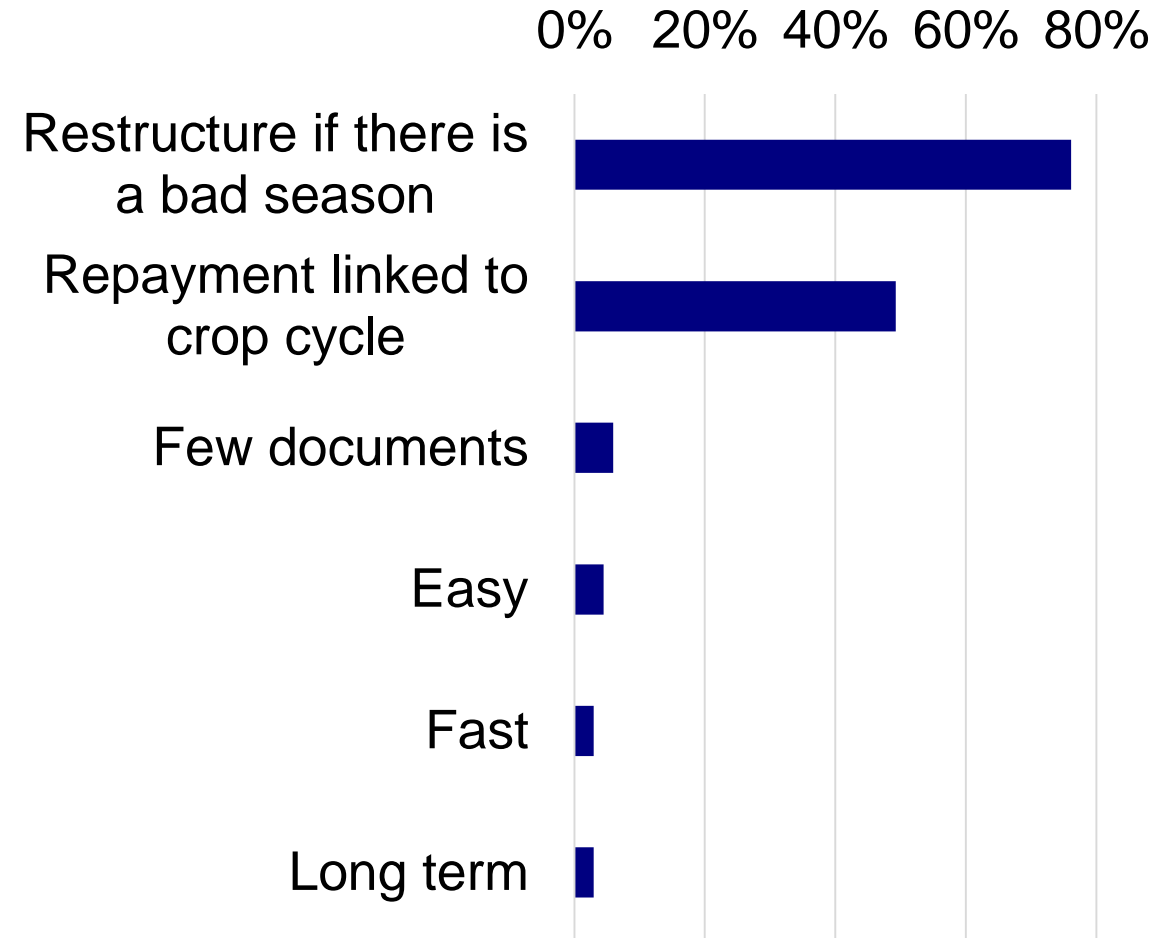


# Some ideas (2) Secured loans

**Type of Land Ownerships in Mindanao**

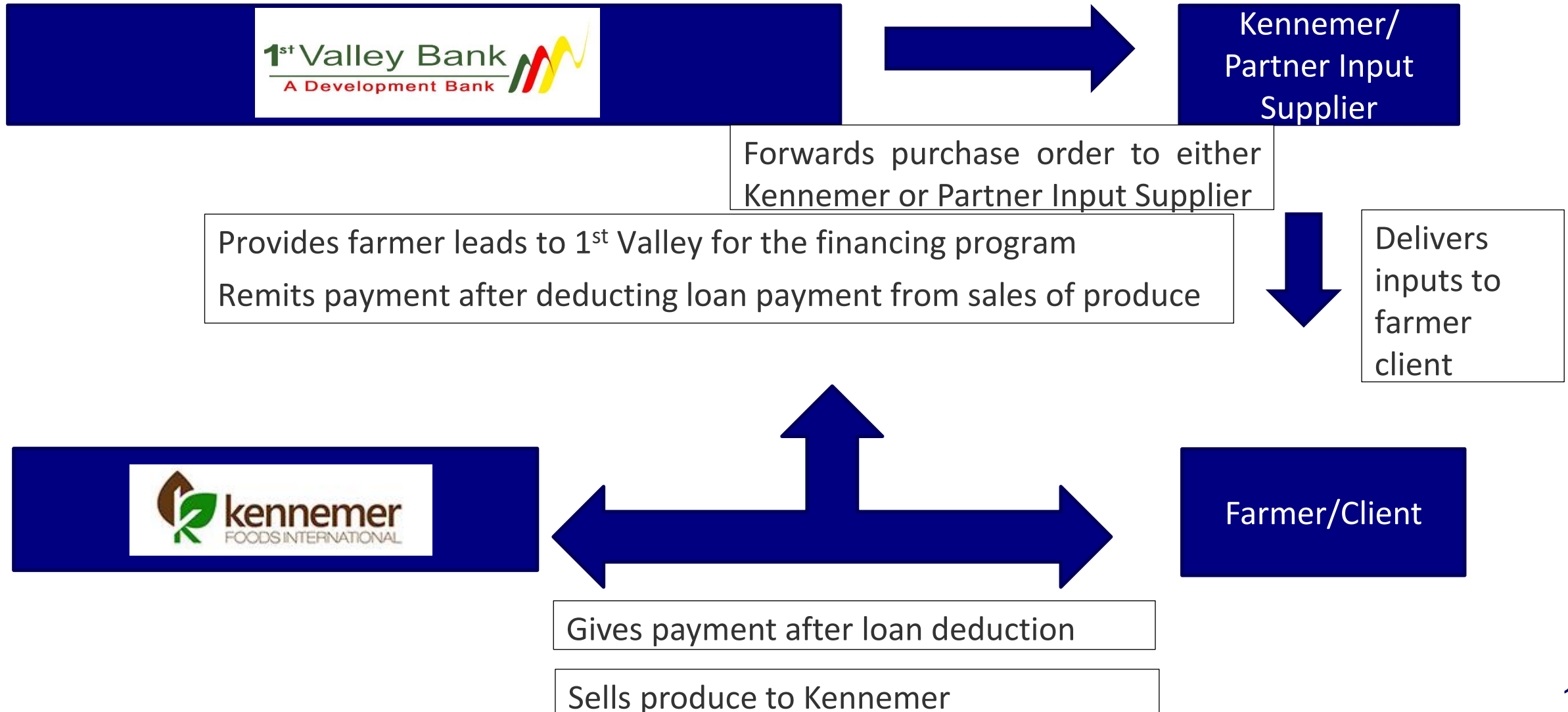


**What loan features are important for Thai Farmers?**



**P598m in 1<sup>st</sup> Valley**

# Some ideas (3) Develop value chain lending



# Use the govt programs, private partners



Bayer CropScience



International  
Rice Research  
Institute

# Declaration of Commitment to Agricultural Banking

Since a large portion of the underprivileged live in rural areas and work in agriculture, agricultural focused banking is critical to this mission of Rural Banks.

Furthermore, effective lending to agriculture will stimulate innovation, hence increasing wealth creation in rural areas and promoting national development.

The undersigned Rural Focused Financial Institutions acknowledge the opportunity to expand agricultural lending and the social impact from this lending.

**We commit to develop products and capabilities to increase lending to agriculture. We look forward to working together, with other rural banks and with national agencies to achieve this goal.**



# BSP agrees – this is important



- *This proves that Rural Banks can remain relevant to their markets*
- *Proves to policy makers that Rural Banks should be supported*
- *BSP is working to ensure its policies allow this – encourage you to look at the regulations to see what is possible*

# Leave you with some questions:

- How many farmers are there in our region?
  - There are 4,700,000 in the country
- How many are we serving now?
- Are we talking to farmers to understand their needs / understand how we can lend to them?
- Do we have products that meet the needs of the farmers?