

THIRTEENTH CONGRESS OF THE REPUBLIC)  
OF THE PHILIPPINES )  
First Regular Session )

'04 JUN 30 P12:04

SENATE  
S. NO. 20

RECEIVED BY: 

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Introduced by Senator Juan M. Flavier

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### EXPLANATORY NOTE

Congress has already enacted into law such landmark legislations as R.A. No. 6810 the Magna Carta for Countryside and Barangay Business Enterprises otherwise known as Kalakalan ng 20, and R.A. No. 7368 the Countrywide Industrialization Act of 1992.

What is needed, however, to make small and medium scale enterprises and industries thrive in the countryside is capital and access to credit. Under the Agri-Agra Law (P.D. 717) the inadequacy of credit would be alleviated by requiring the banks to set aside 25% of their loanable funds for agricultural lending – 15% for agricultural production and 10% for agrarian reform. P.D. 717, however, allowed banks to divert the 10% agrarian reform share to government securities, which most commercial banks use to purchase government securities. Moreover, a substantial portion of the 15% share for agricultural production is lent to large agri-related multi-national corporations.

This bill seeks to re-direct the 25% loanable funds in favor of small farmers and small and medium scale enterprises. With credit available in the countryside, business enterprises are expected to thrive, thus, providing more jobs and livelihood opportunities to our people.

The immediate passage of this bill is urged.

  
JUAN M. FLAVIER  
Senator

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**AN ACT**  
**AMENDING PRESIDENTIAL DECREE NO. 717, OTHERWISE KNOWN AS**  
**THE AGRI-AGRA LAW, TO MAXIMIZE THE USAGE OF THE AGRI-AGRA**  
**FUND, WITH STRICT EMPHASIS ON RURAL CREDIT FOCUSING ON SMALL**  
**FARMERS. FISHERMEN AND ENTERPRISES WITH CAPITALIZATIONS NOT**  
**EXCEEDING 500,000 PESOS**

*Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:*

**SECTION 1. Title.** – This Act shall be known as the “Revised Agri-Agra Act of 2004.”

**SECTION 2. Declaration of Policy.** – It is hereby declared the policy of the State to alleviate poverty and promote vigorous growth in the countryside though the full extension/access to rural credit.

**SECTION 3. Definition of Terms.** – For the purposes of this Act, the following terms are defined as follows:

## **Small Farmers and Fishermen.**

Small farmers and fishermen are those whose earnings do not exceed Three Thousand Pesos (P3, 000.00) per month with 1989 as the base year.

### **SECTION 4. Coverage and Allocation of Funds.**

- (a) It shall be mandatory for all banks to apportion at least twenty-five percent (25%) of their loanable funds for agriculture/agrarian reform beneficiaries.
- (b) At least seventy-five percent (75%) of this Agri-Agra Fund shall be clearly set aside and strictly utilized for rural credit. The Land Bank of The Philippines, the Philippine National Bank and the Development Bank of the Philippines shall act as the lead lending and collection conduits of financial institutions with special attention to commercial banks.
- (c) The use of the remaining twenty-five percent (25%) of the Agri-Agra Funds shall be left to the discretion of the financial institutions involved.
- (d) Financial institutions shall no longer be allowed to use the Agri-Agra Funds to buy government securities. (In effect, Section 4(a) of Presidential Decree No. 717 is hereby repealed.)

- (e) Enterprises and cooperative organizations qualified to avail of the Agri-Agra Funds are those with capitalization not exceeding Five hundred thousand pesos (P500,000.00).

**SECTION 5. Network.**

- (a) The Central Bank shall immediately allow the LBP, the DBP and the PNB to increase their branches in the countryside to strengthen their roles as the main conduits of the Agri-Agra Funds.
- (b) The Central Bank shall also encourage the establishment of new rural banks to further facilitate the easy dispersal of the Agri-Agra Funds.
- (c) Rural banks shall be allowed to give accreditations to existing informal lenders. These informal money lenders can now integrate into the formal banking system with the following incentives:
- (1) These lenders shall have easy access to credit supply from the banks they affiliate with;
  - (2) The banks involved shall shoulder part of the lenders' collection losses; and
  - (3) As agents of rural banks, the moneylenders shall be entitled to commissions that will be determined by the Central Bank.

- (d) In exchange for the above incentives, the accredited moneylenders shall charge the same lending rate as the rate of the rural banks, which accredit them.

**SECTION 6. Drawdown of Funds.**

- (a) In cognizance of the size of the whole Agri-Agra Funds, the full drawdown of the Agri-Agra Fund from the financial institutions shall be done gradually within a period of five (5) years from the approval of this Act.
- (b) The LBP, the DBP, and the PNB shall formulate a program that will allow the countryside financial establishments to adequately disperse the Agri-Agra Fund within the time limit set by the law.

**SECTION 7. Agricultural Promissory Notes.**

- (a) The LBP, the DBP, the PNB, and interested commercial banks are hereby authorized to create a special instrument herein referred to as the Agricultural Promissory Note (APN), with annual interest rate of three percent (3%), which shall be the investment instrument for participating banks, who are willing to place their funds in accordance with this Act.

(b) Funds invested in APN shall be used exclusively for agricultural loans and for the benefit of agrarian reform beneficiaries.

(c) A special accreditation committee shall be created by the President to accredit commercial banks qualified to issue APN's.

**SECTION 8. Monitoring.** – The Central Bank, the LBP, the DBP and the PNB shall strengthen their monitoring functions in coordination with all relevant entities in the rural areas to ensure the efficient distribution of the Agri-Agra Fund to small farmers, fishermen and producers' cooperatives.

**SECTION 9. Penal Clause.** – The Central Bank shall impose the heavy penalties on erring commercial banks, rural banks, accredited cooperatives and accredited moneylenders for any abusive use of the Agri-Agra Fund. The penalties shall be in the form of imprisonment of the bank president, bank manager, cooperative head and moneylenders for misuse of the Agri-Agra Fund or a fine of not less than Three hundred thousand pesos (P300, 000.00).

**SECTION 10. Implementing Guidelines.** – The Central Bank, in coordination with LBP and other relevant agencies, shall formulate the necessary guidelines and/or mechanisms within fifteen (15) working days after approval of this Act.

**SECTION 11. Repealing Clause.** – Any other provisions of laws, decrees and regulations inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

**SECTION 12. Effectivity.** – This Act shall take effect upon its approval.

Approved,