

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

04 JUN 30 P10:30

SENATE
S.B. NO. 867

RECEIVED BY: [Signature]

Introduced by Senator Jinggoy Ejercito Estrada

Explanatory Note

Farmers must have access to cheap, timely and adequate credit. Rural credit must be available to small farmers at reasonable cost in order to achieve desired productivity.

According to the Congressional Commission on Agricultural Modernization, rather than formal banking institutions, farmers usually prefer local businessmen/traders who not only lend for production, but also buy the farmers' produce. Small borrowers or farmers prefer to deal with these informal lenders because they can get their loan quickly with less paperwork and, sometimes, no collateral. The usual complain lodged against these informal lenders, however, is the usurious interest rates they charge.

The framers of Presidential Decree 717 attempted to resolve the need to provide credit by ensuring that funds are made available through the formal banking system. The Agri-Agra Law or PD 717 mandates all commercial banks to set aside 25% of their loanable funds for agricultural lending--15% for agricultural production and 10% for agrarian reform.


PD 717, however, allowed these banks to divert the 10%-agrarian reform share to government securities. Furthermore, a substantial portion of the 15% share for agricultural production is lent to large agribusiness corporations. Banks prefer to lend to agribusiness enterprise because of the higher risk of loan default or non-repayment by the small farmers.

Even with PD 717, access to credit remains a major problem. AGRICOM states that in 1986, it was reported that only one third of small farmer borrowers was to avail themselves of credit from the banks. In 1992, of the total P126 billion agricultural loans released by the banks, only 11 percent went to small farmers and fishermen. Even the Land Bank, shifted its policies to be able to undertake non-agricultural banking. As of March 1997, the Landbank's loans to small farmers and fisherfolk amounted to P23.2 billion compared with P57.3 billion for non-agriculture.

The proposed measure aims to correct this loophole by: a) removing the provision allowing financial institutions to invest in government securities; b) setting a ceiling as to who may have access to credit, in order to ensure that small farmers and fishers shall be the primary beneficiaries of the funds; c) expand or broaden the modes of compliance and expand the conduit networks in anticipation of the total loanable funds that may be made available. This measure provides penalties for erring banks and its officials to ensure strict compliance by financial institutions.

This bill envisions better access by small farmers to formal credit. Furthermore, the bill provides for alternative compliance which provides for direct support to agriculture such as infrastructure. With credit made available in the countryside and infrastructure given priority by the government, the promotion of growth in the countryside, through agriculture, looks promising.

For these considerations, the approval of this bill is earnestly sought.


JINGGOY EJERCITO ESTRADA

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**AN ACT BROADENING THE SCOPE OF COMPLIANCE AND EXPANDING THE
CONDUIT NETWORK FOR AGRI-AGRA CREDIT , AMENDING FOR THIS
PURPOSE PRESIDENTIAL DECREE 717 OTHERWISE KNOWN AS THE AGRI-
AGRA LAW**

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

**SECTION 1. Section 1, of P.D. 717 is hereby amended to read as
follows:**

“SECTION I. There shall be evolved an AGRICULTURE, FISHERIES,
AND, agrarian reform credit and financing system to improve the productivity
of agriculture and FISHERIES, particularly farmers, MUNICIPAL
FISHERFOLK, and [for the beneficiaries] agrarian reform beneficiaries,
namely: tillers, tenant-farmers, settlers, agricultural lessees, amortizing
owners, owner-cultivators, farmers cooperative, agro-industrial enterprises,
corporate farmers, agricultural processing plants, post harvest facilities, and
compact farms through government and private banking institutions for the
production of other types of loans for the acquisition of work animals.

AGRICULTURE, FISHERIES AND agrarian reform credit, as used
herein , shall include production or other types of loans for acquisition of work
animals, farm equipment and machinery, seeds, fertilizers, poultry, livestock
feeds, and other similar items; acquisition of lands authorized under the
Agrarian Reform Code of the Philippines and its amendments; construction
and/or acquisition of facilities for production, processing, storage and
marketing;—and efficient and effective merchandising of agricultural
commodities stored and/or processed by the facilities aforecited in domestic
and foreign commerce.

SECTION 2 Section 2 is hereby amended as follows:

"SECTION 2. The credit mentioned in the next preceding section may be extended to the beneficiaries therein WITH CAPITALIZATION OF NOT MORE THAN FIFTY MILLION PESOS (P50,000,000.00) OR TO COOPERATIVES OF SUCH BENEFICIARIES REGARDLESS OF CAPITALIZATION based on the feasibility of the project and their paying capacity; their estimated production, and/or securities they can provide as well as such assets as may be acquired by them from the proceeds of the loan,"

SECTION 3 SECTION 3 of the same decree is hereby amended to read as follows:

Section 3. All banking institutions, whether government or private shall set aside ~~at~~ least 25% of their loanable funds for THE PURPOSE OF LENDING THE SAME TO THE AGRICULTURE AND FISHERIES SECTORS [agriculture credit in general, of which at least ten percent (10%) of the loanable funds shall be made available for] AND agrarian reform beneficiaries mentioned in Section 1 hereof. Provided, however, that loanable funds are used in this Section shall refer to funds generated from the date of the effectivity of this Decree(s). Provided, further that the National Economic Development Authority may increase or decrease such percentages whenever so recommended by the Department of Agrarian Reform and the Central Bank of the Philippines taking into consideration the magnitude of the credit needs of the beneficiaries of agrarian reform.)"

SECTION 4 SECTION 4 of the same decree is hereby amended to read as follows:

SECTION 4. The BANGKO SENTRAL NG PILIPINAS, in consultation with {and/or upon the recommendation of } the DEPARTMENT OF AGRICULTURE AND THE Department of Agrarian Reform, shall promulgate such rules and regulations as may be necessary to implement the provisions of this Decree. Subject to such rules and regulations, banking institutions may be allowed to:

(a) Invest, in such government securities as may be declared eligible by the Central Bank of the Philippines, any portion of the amount set aside for agrarian reform credit not actually loaned out. Provided, however, that the issuing government, entity shall stand to monetize, encash, or repurchase

such securities whenever funds are needed by the banks holding the said securities, for lending to the beneficiaries of agrarian reform; and}

(a) INVEST IN BONDS ISSUED BY THE DEVELOPMENT BANK OF THE PHILIPPINES (DBP) AND THE LAND BANK OF THE PHILIPPINES (LBP) AND/OR OPEN SPECIAL DEPOSIT ACCOUNTS (SDA 's) WITH THRIFT BANKS LOCATED OUTSIDE THE NATIONAL CAPITAL REGION (NCR), WITH COOPERATIVE BANKS AND RURAL BANKS: PROVIDED THAT THE PROCEEDS FROM SAID BONDS AND SDA's SHALL BE USED EXCLUSIVELY FOR ON-LENDING TO THE AGRICULTURE, FISHERIES, AND AGRARIAN REFORM SECTORS, PROVIDED, FURTHER, THAT: PROCEEDS FROM SAID BONDS AND SDA's SHALL BE SEPARATELY ACCOUNTED FOR BY THE DBP, LBP AND THE DEPOSITORY THRIFT BANKS AND SHALL BE CONSIDERED FOR PURPOSES OF COMPUTING THE LOANABLE FUNDS UNDER SECTION 3 HEREOF OF THE SAID BANK, PROVIDED FINALLY, THAT SAID BONDS SHALL BE REDEEMABLE ANYTIME.

(b) Rediscount with the {Central Bank of the Philippines} COMMERCIAL BANKS eligible paper covering AGRICULTURE, FISHERIES and agrarian reform credits; PROVIDED THAT SUCH REDISCOUNTED PAPERS SHALL NO LONGER BE ELIGIBLE AS COMPLIANCE ON THE PART OF THE ORIGINATING BANK./

© LEND IN BUILD-OPERATE-TRANSFER SCHEMES FOR THE FINANCING OF AGRI-RELATED ACTIVITIES AND RURAL SUPPORT SYSTEMS, INCLUDING BUT NOT LIMITED TO FARM TO MARKET ROAD NETWORKS, POST HARVEST FACILITIES, STORAGE FACILITIES, FISHPORTS, IRRIGATION SYSTEMS AND MARKETING FACILITIES SUCH S LOCAL FOOD TERMINALS THAT WILL BENEFIT THE AGRICULTURE, FISHERIES AND AGRARIAN REFORM BENEFICIARIES; PROVIDED THAT THE FEASIBILITY STUDY DESIGN AND WORK PROGRAMS OF THE INFRASTRUCTURE PROJECTS SHALL BE PREPARED BY THE PROVINCIAL AND/OR MUNICIPAL LOCAL GOVERNMENT UNITS (LGUs) CONSISTENT WITH THEIR LAND USE PLAN AND/OR MUNICIPAL DEVELOPMENT PLANS, IN CONSULTATION WITH:

(1) THE NATIONAL IRRIGATION ADMINISTRATION AND DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS FOR IRRIGATION SYSTEMS AND FARM TO MARKET ROADS.

(2) THE DEPARTMENT OF AGRICULTURE AND/OR NATIONAL FOOD AUTHORITY FOR POST HARVEST FACILITIES, STORAGE FACILITIES AND MARKETING FACILITIES INCLUDING LOCAL FOOD TERMINALS.

(3) THE PHILIPPINE PORT AUTHORITY AND THE PHILIPPINE FISHERIES DEVELOPMENT AUTHORITY FOR COLD STORAGE FACILITIES AND FISHPORTS.

PROVIDED FURTHER THAT THE P1.5 MILLION CEILING FOR QUALIFIED BENEFICIARIES UNDER SECTION 2 HEREOF DOES NOT APPLY IN THIS INSTANCE.

(D) EXTENDED DEVELOPMENT LOANS AS PROVIDED UNDER SECTION 9 OF RA 7721; AND

(E) LEND TO FARMERS, FARMERS ASSOCIATION OR COOPERATIVES FOR THE PRODUCTION, MARKETING AND DISTRIBUTION OF HIGH VALUE CROPS UNDER RA 7900.

SECTION 5. The provision in the second paragraph of Section 9 of RA 7900, which states that banks lending at least five percent (5%) of their loanable funds directly to the farmers associations or cooperatives are exempted from the compliance agreement of P.D. 717, is hereby repealed. All other laws, executive decrees or issuances, or any parts thereof which are inconsistent with the provisions of this Act are hereby repealed or amended accordingly.

SECTION 6. The Bangko Central ng Pilipinas shall impose administrative sanctions and other penalties on the lending institutions for non-compliance with the provisions of this Act. In addition, the President, members of the Board of Directors and other officers of the erring lending institution shall be individually liable for imprisonment of not less than six (6) months; and a fine of not more than five hundred thousand pesos (P500,000.00) each: Provided , further that said erring bank officer shall be barred from occupying positions in banking institutions thereafter.

SECTION 7. If any of the provisions of this Act are declared invalid or unconstitutional, the remaining provisions not affected hereby shall remain valid.

SECTION 8, This Act shall take effect fifteen (15) days after its publication in at least two (2) newspapers of general circulation.

Approved,