

20 FEB 18 P3:06

SENATE

Senate Bill No. **1361**

RECEIVED BY _____



Introduced by **SENATOR SONNY ANGARA**

**AN ACT
MANDATING BANKING INSTITUTIONS TO STRENGTHEN THE FINANCING
SYSTEM FOR AGRICULTURAL, FISHERIES, AND RURAL DEVELOPMENT IN
THE PHILIPPINES AND FOR OTHER PURPOSES**

EXPLANATORY NOTE

The agricultural sector plays a significant part in promoting inclusive and broad based economic growth. Notwithstanding this critical role, the sector faces persistent challenges in accessing formal credit owing to issues on bankability of projects, lack of technical expertise of financial institutions in agriculture financing, and the high levels of risk exposures of the sector.

The mandated credit quota, under RA 10000 (Agri-Agra Reform Credit Act of 2009), may appear to be a straightforward approach to channeling resources to the sector but it does not address the underlying issues that make the sector unattractive to credit providers.

The proposed amendments aim to promote sustainable financing in rural communities that can truly improve the welfare and economic prospects, not only of agriculture workers, but also of their households and their enterprises. This demands a holistic approach that takes into consideration the broader agriculture financing ecosystem and rural community developmental requirements. In this respect, the proposed amendments expand coverage of activities that are eligible for financing to include, not only agricultural activities, but also other activities that complement and augment income of people in rural communities. These include, off-farm/fishery activities, agricultural mechanization/ modernization, agri-tourism, green finance projects, public rural infrastructure, and livelihood, skills enhancement, and other capacity-building activities of the rural community beneficiaries.

In addition, the proposed amendments include the creation of an Agribusiness Management Capacity And Institution-Building Fund (Special Fund), to finance agricultural- and fishery-related activities as well as organizational-, capacity-, and institution-building programs of cooperatives and other duly-registered organizations of rural agricultural and fisheries households. The Special Fund, shall consist of contributions from the banking industry as well as penalties from non-compliance with the mandatory credit requirement. The Special Fund, shall be managed by the "*Agricultural and Fisheries Finance and Capacity-Building Council (AFFCC)*", which is composed of representatives from the private and public sector. In this scheme, both the private and public sector become active partners in the upliftment of the welfare of rural communities and not just act as credit providers.

These amendments are critical in addressing the broader ecosystem requirements that can support viability and sustainability of rural agriculture financing.

In view of the foregoing, the passage of this bill is earnestly sought.



SONNY ANGARA



20 FEB 18 P 3:06

SENATE

Senate Bill No. 1361

RECEIVED BY: _____

Introduced by **SENATOR SONNY ANGARA**

AN ACT
MANDATING BANKING INSTITUTIONS TO STRENGTHEN THE FINANCING
SYSTEM FOR AGRICULTURAL, FISHERIES, AND RURAL DEVELOPMENT IN
THE PHILIPPINES AND FOR OTHER PURPOSES

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

ARTICLE I
GENERAL PROVISIONS

1 **SECTION 1. Title.** – This Act shall be known as “*The Rural Agricultural and*
2 *Fisheries Financing Enhancement System Act*”.

3 **SEC. 2. Declaration of Policy.** – It is hereby declared the policy of the State
4 to promote inclusive and broad-based economic growth by ensuring equal access to
5 opportunities under an environment of sustained growth and expanding productivity
6 as the key to raising the quality of life for all. Towards this end, the State shall promote
7 rural development by enhancing access of rural communities and agricultural and
8 fisheries households to financial services and programs that increase productivity,
9 enhance market efficiency, promote modernization and improve the welfare and
10 economic prospects of beneficiaries in rural communities through active participation
11 of banking institutions.

12 **SEC. 3. Definition of Terms.** – As used in this Act, the following terms shall
13 mean:

- 1 a. **Agrarian Reform Beneficiary (ARB)** – refers to a farmer who was granted
2 land under Presidential Decree No. 27, the Comprehensive Agrarian Reform
3 Law and Republic Act No. 9700 or the "Comprehensive Agrarian Reform
4 Extension with Reforms" and a regular farm worker who is landless,
5 irrespective of tenurial arrangement, who benefited from the redistribution of
6 land, regardless of crops or fruits produced, to include the totality of factors
7 and support services designed to lift the economic status of the beneficiary
8 and all other alternative arrangements to the physical distribution of lands,
9 such as production or profit sharing, labor administration, and the distribution
10 of shares of stock which will allow the beneficiary to receive a just share of
11 the fruits of the lands one works. The term shall also include registered
12 agrarian reform beneficiaries' cooperatives, associations, and other farm
13 groups, respectively endorsed as comprising of agrarian reform beneficiaries
14 by the nearest office of the DAR, as well as ARB households.
- 15 b. **Agrarian Reform Community (ARC)** – refers to a barangay or a cluster of
16 barangays primarily composed and managed by agrarian reform beneficiaries
17 who shall be willing to be organized and undertake the integrated
18 development of an area and/or their organizations or cooperatives.
- 19 c. **Agri-Business** – refers to agriculture and fishery-related activities that put
20 farmers, fisherfolk processors, distributors, and consumers within a system
21 that produces, processes, transports, markets, and distributes agricultural and
22 fishery products. It encompasses input production, farm and fishery
23 operations and management, equipment and supplies manufacturing,
24 food/non-food processing, trading, and retailing.
- 25 d. **Agri-Tourism** – also referred to as "Farm Tourism" under Republic Act No.
26 10816, refers to the practice of attracting visitors and tourists to farm areas
27 for production, educational and recreational purposes. It involves any
28 agricultural– or fishery-based operation or activity that brings to a duly-
29 accredited farm tourism camp, visitors, tourists, farmers and fisherfolk who
30 want to be educated and trained on farming and its related activities.
- 31 e. **Agricultural Lessee** – refers to any person who, with or without help from
32 his/her immediate farm household, cultivates the land owned by another for
33 a certain price in money, in produce, or in both.

- 1 f. ***Agricultural or Fisheries Household*** – refers to a household is considered
2 to be an agricultural or fisheries household when at least one member of the
3 household is a farmer, a fisherman, an agrarian reform beneficiary, a settler,
4 an agricultural lessee, an amortizing owner, a farmworker, a fishworker, an
5 owner-cultivator, a compact farmer, or a tenant farmer.
- 6 g. ***Agricultural Value Chain (AVC)*** – refers to a set of actors or players, such
7 as producers (*farmers, fisherfolks*), traders, suppliers, processors,
8 aggregators, who conduct linked sequence of value-adding activities involved
9 in converting an agricultural product from its raw material to final form and
10 bringing it to consumers.
- 11 h. ***Agricultural Value Chain Financing (AVCF)*** – refers to financing to an
12 AVC following the identification and analysis of AVC and the design of
13 appropriate financial products and services for actors or players that form part
14 of the AVC.
- 15 i. ***Agro-Industry Modernization Credit and Financing Program***
16 ***(AMCFP)*** – refers to the umbrella credit or financing program of the
17 government for the agriculture and fisheries sector created under Republic Act
18 No. 8435.
- 19 j. ***Amortizing Owners*** – refer to landowners who amortize payment for the
20 land to a private individual or to the State.
- 21 k. ***Compact Farmers*** – refer to those farmers with adjoining farms operating
22 as a single unit under one management, farm plan and budget.
- 23 l. ***Farmer*** – refers to a natural person whose primary livelihood is cultivation of
24 land or the production of agricultural crops, agroforest products, or livestock,
25 either by oneself, or primarily with the assistance of their immediate farm
26 household, whether the land is owned by them or by another person under a
27 leasehold or share tenancy agreement or arrangement with the owner thereof.
- 28 m. ***Farmworker*** – refers to a natural person who renders service for value as
29 an employee or laborer in an agricultural enterprise or farm regardless of
30 whether their compensation is paid on a daily, weekly, monthly or "pakyaw"
31 basis. The term includes an individual whose work has ceased as a
32 consequence of, or in connection with, a pending agrarian dispute who has
33 not obtained a substantially equivalent and regular farm employment.

- 1 n. **Farmers' Cooperatives** – refer to organizations composed primarily of small
2 agricultural producers, farmers, farmworkers, or other agrarian reform
3 beneficiaries who voluntarily organize themselves for the purpose of pooling
4 land, manpower, technological, financial or other economic resources, and
5 operate on the principle of one member, one vote. A juridical person may be
6 a member of a cooperative, with the same rights and duties as a natural
7 person.
- 8 o. **Farmer's and Fisherfolk's Organizations or Associations** – refer to
9 farmer's and fisherfolk's cooperatives, associations or corporations duly
10 registered with appropriate government agencies and which are composed
11 primarily of small agricultural producers, farmers, farmworkers, agrarian
12 reform beneficiaries, fisherfolk who voluntarily join together to form business
13 enterprises or non-business organizations which they themselves own, control
14 and patronize.
- 15 p. **Farm-To-Market Road** – refers to a road linking the agriculture and fisheries
16 production sites, coastal landing point and post-harvest facility to the market
17 and arterial road and highway.
- 18 q. **Financial Services** – refer to services extended by banks or financial
19 institutions such as, but not limited to, credit or lending, deposits,
20 rediscounting, and insurance.
- 21 r. **Fisherfolk** – refers to people directly or personally and physically engaged in
22 catching and/or culturing and processing fishery and/or aquatic resources.
- 23 s. **Fishworker** – refers to a person whether or not regularly employed in
24 commercial fishing and related industries, whose income is either from wages,
25 profit sharing or stratified sharing basis, including those working in fish pens,
26 fish corral or traps, fishponds, prawn farms, sea farms, salt beds, fish ports,
27 fishing boat or trawlers, or fish processing and/or packing plants, but
28 excluding administrators, security guards and overseers.
- 29 t. **Green Finance** – refers to financial services and products designed to
30 promote the flow of finance towards green economic activities and projects.
31 Aside from financing to promote climate change adaptation and mitigation,
32 green finance also covers environmental improvement and efficiency
33 improvement in natural capital preservation and resource mobilization.

- 1 u. **Micro, Small, and Medium Enterprise (MSME)** – refers to any business
2 activity or enterprise defined as such under existing laws.
- 3 v. **Newly-Established Bank** – refers to a domestic or foreign bank without
4 banking presence in the Philippines prior to the issuance of its certificate of
5 authority to operate. It shall not include banks that have been formed through
6 the acquisition, purchase of ownership of the voting stock of an existing
7 domestic bank or the merger or consolidation of banks.
- 8 w. **Owner-Cultivators** – refer to natural persons who own lands by purchase,
9 inheritance, or land distribution by the State. Owner-Cultivators can operate
10 the farm themselves, supervise wage labor or delegate operations to farmers.
- 11 x. **Philippine Crop Insurance Corporation (PCIC)** – refers to a government-
12 owned and -controlled corporation which provides insurance protection to
13 the country's agricultural producers, particularly the subsistence farmers
14 against crop losses arising from natural calamities such as typhoons, rising
15 sea levels, floods, drought, earthquakes, volcanic eruptions, plant diseases
16 and pest infestation, and non-crop agricultural asset losses due to perils for
17 which the asset has been insured against.
- 18 y. **Post-Harvest Activities** – refer to threshing, drying, milling, grading,
19 storing, and handling of produce and such other activities of a similar nature
20 such as stripping, winnowing, chipping and washing.
- 21 z. **Post-Harvest Facilities** – refer to threshers, moisture meters, dryers,
22 weighing scales, milling equipment, fish ports, fish landings, ice plants and
23 cold storage facilities, processing plants, warehouses, buying stations, market
24 infrastructure and transportation facilities, and such other facilities, supporting
25 post-harvest activities.
- 26 aa. **Public Rural Infrastructure** – refers to infrastructure in rural communities
27 such as highways, streets, bridges, tunnels, railways, railroad, transport
28 systems, ports, airports, hydropower projects, canals, dams, irrigation,
29 government buildings and housing projects, public schools, public hospitals,
30 public health centers, public markets, slaughterhouses, warehouses, solid
31 waste management, sewerage, flood control, drainage, dredging and other
32 similar infrastructure projects.

1 bb. **Rural Community** – refers to areas that are defined as such by the Philippine
2 Statistics Authority (PSA).

3 cc. **Rural Financial Institution (RFI)** – refers to any financial institution
4 established and is operating in a rural community.

5 dd. **Settlers** – refer to persons who range from the forest-clearing pioneers,
6 including indigenous people, with a subsistence economy to the better
7 equipped and more experienced farmers.

8 ee. **Tenant Farmer** – refers to one who cultivates another's land under a sharing
9 or leasehold agreement.

10 **ARTICLE II**

11 **AGRICULTURAL FISHERIES AND RURAL FINANCING SYSTEM**

12 **SEC. 4. Agriculture, Fisheries and Rural Financing System.** – There shall
13 be an agricultural, fisheries and rural financing system to improve the welfare,
14 competitiveness, income and productivity of the rural community beneficiaries,
15 particularly the farmers, fisherfolk, agrarian reform beneficiaries, agrarian reform
16 communities, settlers, agricultural lessees, amortizing owners, farmworkers,
17 fishworkers, owner-cultivators, compact farmers, tenant farmers, and members of
18 their households and their MSMEs, as well as farmers' and fisherfolk's cooperatives,
19 organizations and associations, through government and private banking institutions.

20 Agricultural, fisheries and rural financing, as used herein, shall consist of loans,
21 investments and grants to finance activities that shall enhance productivity and
22 increase income of an agricultural and fisheries household, thereby promoting
23 agricultural sector productivity and competitiveness, as well as sustainable
24 development of rural communities. These shall include, but not be limited to, activities
25 identified under the AMCFP as enumerated under Chapter 3 Section 23 of Republic
26 Act No. 8435, off-farm/fishery activities, agricultural mechanization/modernization,
27 agri-tourism, green finance projects, acquisition of lands authorized under the
28 Agrarian Reform Code of the Philippines and its amendments, efficient and effective
29 marketing, processing, distribution and storage of agricultural and fishery
30 commodities, public rural infrastructure, as well as programs that shall address the
31 developmental needs of rural communities, such as, but not limited to, projects that

1 promote the livelihood, skills enhancement, and other capacity-building activities of
2 the rural community beneficiaries and all other activities consistent or analogous to
3 the foregoing, as may be determined by the Agricultural and Fisheries Finance and
4 Capacity-Building Council (AFFCC).

5 **SEC. 5. Rural Community Beneficiaries.** – The financing mentioned in the
6 preceding section shall be extended to the rural community beneficiaries named
7 therein or to cooperatives, associations, MSMEs or organizations in good standing of
8 such beneficiaries, regardless of capitalization based on the feasibility of the project
9 and their paying capacity, their estimated production, and/or securities they can
10 provide as well as such assets as may be acquired by them from the proceeds of the
11 loan, investments and grants.

12 **SEC. 6. Credit Quota.** – All banking institutions, whether government or
13 private, except newly-established banks for a period of five (5) years from date of
14 commencement of the banks' operations, shall set aside a credit quota, or a minimum
15 mandatory agricultural and fisheries financing requirement of at least twenty-five
16 percent (25%) of their total loanable funds.

17 The total loanable funds generated by a banking institution shall be defined by
18 the BSP. During the first year of effectivity of this Act, the total loanable funds
19 generated shall be computed starting from 20 April 2010, the effectivity of Republic
20 Act No. 10000, after which the bank's total loanable funds shall be determined based
21 on funds generated starting from the second year of effectivity of this Act.

22 **SEC. 7. Modes of Compliance.** – Banks may comply with the mandatory
23 credit requirement by lending to rural community beneficiaries, to finance agricultural
24 and fishery-related activities identified under the AMCFP as enumerated under Chapter
25 3 Section 23 of Republic Act No. 8435, off-farm/fishery activities, agricultural
26 mechanization/modernization, agri-tourism, green finance projects, marketing,
27 processing, distribution and storage of agricultural and fishery commodities, livelihood
28 projects, skills enhancement or capacity-building programs.

1 Banks may also comply with the mandatory financing requirement through
2 other means as follows:

- 3 a. Invest in debt securities, including those issued by the Development Bank of
4 the Philippines (DBP) and the Land Bank of the Philippines (LBP): *Provided,*
5 That the proceeds from said debt securities shall be used to finance activities
6 under Section 4 hereof: *Provided further,* That the proceeds from debt
7 securities issued by the DBP and the LBP shall be separately accounted for
8 and shall not be considered for purposes of computing the loanable funds
9 under Section 6 hereof of the said banks;
- 10 b. Open deposit accounts with rural financial institutions: *Provided,* That the
11 deposit accounts shall be separately accounted for by the depository bank
12 and shall not be considered for purposes of computing the loanable funds
13 under Section 6 hereof of the said banks;
- 14 c. Rediscount with banks eligible paper covering agriculture, fisheries and
15 agrarian reform credits: *Provided,* That rediscounted paper shall no longer
16 be eligible as compliance on the part of the originating bank;
- 17 d. Invest directly in shares of stock of rural financial institutions, subject to
18 prevailing laws, rules or regulations or lend wholesale to rural financial
19 institutions: *Provided,* That the wholesale loans shall be credited as
20 compliance of the bank acting as wholesale lender alone;
- 21 e. Lend for the construction and upgrading of infrastructure, including but not
22 limited to, farm-to-market roads, as well as the provision of post-harvest
23 facilities and other public RURAL infrastructure that will benefit the
24 agriculture, fisheries and agrarian reform sector;
- 25 f. Lend to agri-business enterprises that maintain agricultural commodity
26 supply-chain arrangements directly with rural community beneficiaries;
- 27 g. Undertake agricultural value chain financing to actors or players in the AVC
28 that benefits rural communities; and
- 29 h. Invest in shares of stock of the PCIC or in companies that primarily engage
30 in activities under Section 4 hereof that benefit rural community
31 beneficiaries: *Provided,* That the loans and investments that are counted as
32 compliance are not funded by proceeds from the issuance of debt securities,

1 and/or lending of other banks that have been counted as compliance with
2 the mandatory credit: *Provided further*, That loans to finance activities that
3 shall generally benefit agrarian reform beneficiaries, agrarian reform
4 communities, or other priority sectors, as may be determined by the AFFCC,
5 shall be counted at not more than ten times (10X) their outstanding amount,
6 or as otherwise prescribed by the BSP, for purposes of determining
7 compliance with the mandatory agricultural and fisheries financing
8 requirement.

9 **SEC. 8. *Subject to Review.*** – The modes of compliance enumerated in the
10 preceding section shall be subject to review by the AFFCC after implementation to
11 determine whether these are adequate to support the financing requirements of rural
12 communities and recommend to Congress for appropriate action.

13 **SEC. 9. *Annual Reports.*** – The BSP shall furnish reports on the compliance
14 with the mandatory agricultural and fisheries financing requirement to the Congress
15 on a yearly basis. The BSP shall, as part of its regulatory functions, monitor the
16 compliance by the banks with the requirements of this Act.

17 **SEC. 10. *Penalty Clause.*** – The BSP shall impose administrative sanctions
18 and other penalties on the lending institutions for violation of any of the provisions of
19 this Act. Penalties on non-compliance or under-compliance with the mandatory
20 agricultural and fisheries financing requirement shall be computed at one-half of one
21 percent (0.5%) of non-compliance or under-compliance, or at rates prescribed by the
22 BSP Monetary Board. Upon collection of the penalties, the BSP shall remit the same to
23 the AFFCC for deposit to the special fund created under Article III of this Act. Ten
24 percent (10%) of the penalties collected shall be retained by the BSP to cover
25 administrative expenses.

26 **ARTICLE III**

27 **AGRIBUSINESS MANAGEMENT CAPACITY AND INSTITUTION-BUILDING**

28 **FUND AND PROGRAM**

1 **SEC. 14. *Agricultural And Fisheries Finance and Capacity-Building***
2 ***Council (AFFCC).*** — There shall be created an Agricultural and Fisheries Finance and
3 Capacity-Building Council (AFFCC) which shall be composed of the Heads, or their
4 designated representatives, of the following agencies: the Department of Agriculture
5 (DA), as Chair; the Bangko Sentral ng Pilipinas (BSP); the Department of Agrarian
6 Reform (DAR); the Department of Trade and Industry (DTI); the Cooperative
7 Development Authority (CDA); the Land Bank of the Philippines (LBP); the
8 Development Bank of the Philippines (DBP); and nine (9) representatives from the
9 private sector as members, one of whom shall be appointed as Vice-Chair. The private
10 sector representatives shall include the heads, or their designated representatives, of:
11 the Bankers Association of the Philippines (BAP), as Vice-Chair; the Rural Bankers
12 Association of the Philippines (RBAP); the Chamber of Thrift Banks (CTB); the
13 Cooperative Banks Federation of the Philippines (BANGKOOOP); the Microfinance
14 Council of the Philippines, Inc. (MCPI); the Philippine Chamber of Commerce and
15 Industry (PCCI); and a representative each from the cooperative sector, the farmers,
16 and the fisherfolk sector.

17 **SEC. 15. *Powers, Duties and Functions of the AFFCC.*** — The AFFCC shall
18 have the following powers, duties, and functions:

- 19 a. to set the target amount for the Special Fund to meet the organizational-
20 and capacity-building requirements of cooperatives and other duly-
21 registered organizations of rural agricultural and fisheries households over a
22 period of ten (10) years;
- 23 b. to determine the annual requirement of the Special Fund;
- 24 c. to identify eligible recipients of the Special Fund;
- 25 d. to identify eligible agricultural- and fishery-related activities and capacity
26 building programs that may be financed by the Special Fund;
- 27 e. to ensure the effective implementation and programs financed by the
28 Special Fund and, for this purpose, to employ or outsource resources and
29 expertise from the banking industry that can provide project coordination
30 and fund management services;

- 1 f. to periodically assess the adequacy of the fund capital in financing the
2 capacity-building requirements of rural cooperatives and other duly-
3 registered organizations of rural agricultural and fisheries households; and
4 g. to ensure compliance with the reporting, monitoring, evaluation and audit
5 requirements of the Special Fund and activities financed.

6 **ARTICLE V**
7 **MISCELLANEOUS PROVISIONS**

8 **SEC. 16. *Audit.*** – The Special Fund shall be audited by the Commission on
9 Audit (COA) in accordance with existing auditing laws, rules and regulations.

10 **SEC. 17. *Oversight Committee.*** – There shall be an oversight committee
11 composed of the following: the Chairperson of the Committee on Banks and Financial
12 Intermediaries of the House of Representatives, Chairperson of the Committee on
13 Banks, Financial Institutions and Currencies of the Senate, a representative from the
14 Office of the President and a representative from the Commission on Audit (COA); to
15 oversee the implementation of the provisions of this Act.

16 **SEC. 18. *Sunset Provisions.*** – The provisions related to the mandatory
17 credit quota under Article II as well as the management and administration of the
18 special fund under Article III shall cease to have effect, ten (10) years from approval
19 of this Act.

20 **SEC. 19. *Repealing Clause.*** –The provisions of Republic Act No. 10000,
21 Executive Order No. 113, and any other laws, presidential decrees, executive orders,
22 rules and regulations, or parts thereof inconsistent with the provisions of this Act are
23 hereby repealed or modified accordingly.

24 **SEC. 20. *Separability Clause.*** – If any portion or provision of this Act is
25 subsequently declared invalid or unconstitutional, other provisions hereof which are
26 not affected thereby shall remain in full force and effect.

1 **SEC. 21. *Transitory Provision.*** – The BSP shall promulgate such rules and
2 regulations as may be necessary to implement Articles I and II of this Act within ninety
3 (90) days after effectivity of this Act. Prior to the effectivity of the implementing rules
4 and regulations of Articles I and II of this Act, the provisions of Republic Act No. 10000
5 shall remain in force.

6 The BSP shall organize a Task Force which shall promulgate such rules and
7 regulations as may be necessary to implement Articles III and IV of this Act within
8 ninety (90) days after effectivity of this Act.

9 **SEC. 22. *Effectivity.*** – This Act shall take effect fifteen (15) days after its
10 publication in the Official Gazette or in at least two (2) national newspapers of general
11 circulation.

Approved,