


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

7 JUL -2 2013

SENATE

RECEIVED BY: 

Senate Bill No. 363

INTRODUCED BY SEN. 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 or 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 1996, 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% 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 Land Bank'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
Senator

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7 JUL -2 AM 11:13

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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 House of Representatives of the Philippines in Congress assembled:

SECTION 1. Section 1 of Presidential Decree 717 is hereby amended to read as follows:

"SECTION 1. 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."

SEC 2. Section 2 of Presidential Decree 717 is hereby amended to read 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,"

SEC 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; *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] BANGKO SENTRAL NG PILIPINAS taking into consideration the magnitude of the credit needs of the beneficiaries of agrarian reform."

SEC 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] BANGKO SENTRAL NG PILIPINAS, 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;
- (b) 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;

- (c) 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;

- (d) 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 AS LOCAL FOOD TERMINAS 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.

- (e) EXTENDED DEVELOPMENT LOANS AS
PROVIDED UNDER SECTION 9 OF R.A. 7721;
AND
- (f) LEND TO FARMERS, FARMERS ASSOCIATION
OR COOPERATIVES FOR THE PRODUCTION,
MARKETING AND DISTRIBUTION OF HIGH
VALUE CROPS UNDER R.A. 7900.”

SEC 5. The Bangko Sentral 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*, That said erring bank officer shall be barred from occupying positions in banking institutions thereafter.

SEC 6. *Repealing Clause.* – The provision in the second paragraph of Section 9 of R.A. 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.

SEC 7. *Separability Clause.* – If any of the provisions of this Act are declared invalid or unconstitutional, the remaining provisions not affected hereby shall remain valid.

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

Approved,