

SENATE

13 JUL -4 10:14

S. No. 447

FILED BY: *ja*

Introduced by Senator Ralph G. Recto

### Explanatory Note

The country's approach to economic development should be anchored on the strategy of *inclusive growth* which addresses the increasing concern that the benefits of progress are not shared equitably with the poor and the vulnerable sectors of society.

Apart from allowing the marginalized members of society to share in the fruits of development, the pursuit of *inclusive growth* must also allow them to participate in productive endeavors designed to attain rapid and sustainable growth and development.

The success of poverty reduction programs is more attainable under the policy of *inclusive growth* as it creates economic opportunities for the hitherto excluded poor Filipinos estimated to be 23 Million or 26.5% of the population, or 20.9% of Filipino families.<sup>1</sup> Through *inclusive growth*, the poor can actively contribute to the development process and not just remain mere recipients of government welfare programs.

The goal of *inclusive growth* is best achieved through the pursuit of *financial inclusion* which should provide mainstream financial institutional services to the disadvantaged and low-income people to free them from the clutches of unscrupulous money lenders. In the Philippines, most poor people lack access to sustainable banking services especially credit facilities that can help improve their lives.

Hence, this bill proposes to amend the charter of the Land Bank of the Philippines (LBP) to focus on the provision of affordable credit to the agriculture sector where most poor Filipinos belong. This will promote *inclusive growth* that will allow them to share in the responsibility and fruits of growth and development.

The Land Bank of the Philippines is a government financial institution that ranks among the top five commercial banks in the Philippines in terms of deposits, assets, loans and capital. It was created in 1963 by Republic Act 3844 or the Agricultural Land Reform Code. It has the most visible presence in the countryside among formal credit institutions. The initial purpose was limited to financing the acquisition by the Government of land for division and resale to small landholders as well as the purchase of landholdings by agricultural lessees as provided for under the Code.

In the fulfillment of its social mandate, it strives to balance countryside development with financial viability.

Conceived as the financing arm of the agrarian reform program and granted a specific mandate for this purpose, the LBP has since been expanded into a full-service commercial bank. It provides financing for farmers and fisher folk, small and medium enterprises, microenterprises, livelihood and agri-business, agricultural infrastructure, agriculture projects, environment-related projects, socialized housing, schools and hospitals, among others.

<sup>1</sup> [http://www.nscb.gov.ph/pressreleases/2011/PR-22011-SS2-01\\_pov2009.asp](http://www.nscb.gov.ph/pressreleases/2011/PR-22011-SS2-01_pov2009.asp) (accessed on March 18, 2013)

By 1973, the LBP had proved to be deficient and inadequate both in capitalization and in organizational structure to fully implement the financing requirements of the CARP. In an effort to revitalize the Bank, Presidential Decree No. 251 was issued on 21 July 1973 which expanded the purpose and powers of LBP. The Bank's new and broadly stated mandate under P.D. 251 was to provide timely and adequate financial support in all phases involved in the execution of needed agrarian reform. Among the expanded mandates given was the power to grant short-, medium- and long-term loans and advances against the security of real estate and/or other acceptable assets for the establishment, development or expansion of agricultural, industrial, home building or home financing projects and other productive enterprises.

The LBP under P.D. 251 now had the specific power to grant loans to farmers' cooperatives/associations to facilitate production, marketing of crops and acquisition of essential commodities. It could also guarantee acceptance(s), credits, loans, transactions or obligations of any person, co-partnership, association or corporation in favor of any financing or banking institution, whether foreign or domestic, so long as the proceeds of such acceptances, credits, loans, transactions or obligations were to be utilized or earmarked for the development and/or expansion of agriculture and industry.

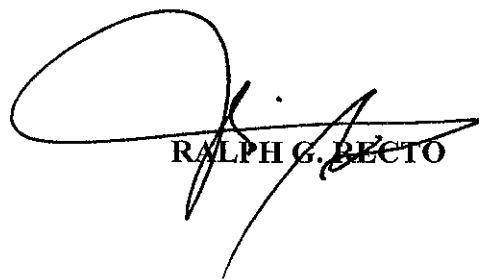
Additionally, P.D. 251 authorized the LBP to act as trustee in accordance with the law governing trust corporations, and to exercise the general powers mentioned in the Corporation Code and the General Banking Law, so long as those powers were not inconsistent with PD 251. In effect, the LBP could now operate as a commercial bank.

In 1982, Executive Order 816 abolished the Agricultural Credit Administration created under RA 3844 and transferred its functions (loans to small farmers) to the LBP. The rationale for this was the adoption of an integrated approach in providing financial assistance to farmer-beneficiaries that is best implemented by a single institution.

More recently, in an effort to enhance *financial inclusion*, the LBP partnered with the Department of Agriculture for the Million Food Staples Sufficiency Program. Its initial fund of Php 400 Million<sup>2</sup> was lent to 8,000 small landholder-farmers in four pilot provinces at declining interest rates. This recent initiative and similar loan programs in the future need the proper direction and mandate that can be provided most effectively through the proposed LBP Charter amendments.

This bill seeks to restore the original intent for the creation of the Land Bank of the Philippines which is to assist mainly farmers and agricultural development projects. Hence, the bill proposes to amend the charter of the bank by giving priority to the agriculture sector and puts a cap of 20 percent to the total loan portfolio that the Bank may grant for programs and projects in sectors other than agriculture. At the moment, about 40 percent of the Bank's loan portfolio is made available for non priority sectors.

In view of the foregoing the approval of this bill is earnestly sought.



RALPH G. BECTO

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<sup>2</sup> <http://www.da.gov.ph/index.php/2012-03-27-12-04-15/2012-04-17-09-30-59/207-da-lbp-to-extend-initial-p400-m-loan-to-rice-farmers> (accessed on March 18, 2013)

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SENATE

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RECEIVED BY: *ja*

Introduced by Senator Ralph G. Recto

**AN ACT**  
**PRIORITIZING THE AGRICULTURAL SECTOR IN THE GRANT OF LOANS BY THE**  
**LAND BANK OF THE PHILIPPINES, AMENDING FOR THE PURPOSE REPUBLIC ACT**  
**NUMBERED THREE THOUSAND EIGHT HUNDRED FORTY-FOUR, AS AMENDED**

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

1       **SECTION 1.** Section 75 of Republic Act No. 3844, as amended by Presidential Decree Number 251,  
2 is hereby further amended to read as follows:

3       **"Sec. 75. Powers in General.** The bank shall have the power:

4       "X X X;

5       "5. To grant short, medium and long term loans and advances against security of  
6 real estate and/or other acceptable assets for the establishment, development or  
7 expansion of agricultural, industrial, home building or home financing projects and  
8 other productive enterprises: *PROVIDED*, THAT THE TOTAL AMOUNT OF  
9 LOANS GRANTED FOR PROGRAMS AND PROJECTS IN SECTORS OTHER  
10 THAN AGRICULTURE SHALL NOT EXCEED TWENTY PERCENT (20%)  
11 OF THE TOTAL BANK LOAN PORTFOLIO.

12       "X X X."

13       **SEC. 2. Savings Clause.** – Nothing in this Act, shall affect the validity or legality of any right,  
14 duty, or obligation created by or in respect of the Bank by virtue of its loan operations as a  
15 commercial bank prior to this Act. Any receivables pertaining to loans granted prior to this Act,  
16 which might be affected by this Act, shall be valid and enforceable upon the terms and conditions  
17 under which the loans were made, including the pledge of collateral against which they were issued,  
18 and all loans made and security or collateral therefore held by the bank shall remain enforceable  
19 according to the terms unless they may be lawfully terminated in accordance with this Act, nor shall  
20 this Act supersede the operation of any law protecting or preserving vested contractual rights or be  
21 construed to change the terms of any legal contract between the bank and any third party or to impose  
22 any new conditions thereon, or to dispense with any condition expressed or authorized in any such  
23 contract entered into and taking effect prior to this Act.

24       **SEC. 3. Separability Clause.** – If any provision of this Act is held invalid or  
25 unconstitutional, the same shall not affect the validity and effectivity of the other provisions hereof.

1       **SEC. 4. *Repealing Clause.*** – Pertinent provisions of all other laws, decrees, executive  
2 orders and rules and regulations contrary to or inconsistent with the provisions of this Act are  
3 hereby repealed or modified accordingly.

4       **SEC. 5. *Effectivity Clause.*** – This Act shall take effect fifteen (15) days after its  
5 publication in the *Official Gazette* or in two (2) newspapers of general circulation.

Approved,