

## 2014 BANKS' COMPLIANCE TO AGRI-AGRA REFORM CREDIT (RA10000)

### Loanable Funds Generated

Total amount of loanable funds generated by the entire banking system as of year-end 2014 amounted to P2.15 trillion, an increase of almost 20% from the previous year. The Agri-Agra Reform Credit Act of 2009 (Republic Act 10000) mandates that all banks set aside 25 percent of their loanable funds for agriculture and fisheries, of which the 10 percent is to be appropriated exclusively for agrarian reform beneficiaries. Based on this loan quota requirement, therefore, at least P537.93 billion (25%) of the total amount of loanable funds generated by the entire banking system in 2014 was for lending to agriculture and fisheries, of which P215.17 billion (10%) was for lending to agrarian reform beneficiaries. Table 1 shows the amount of loanable funds generated by the entire banking system in 2013 and 2014; and the corresponding amounts of loanable funds for the 15% Agri and 10% Agra loan quota requirements as mandated by RA 10000, for both years.

Among the different types of banks, rural banks and cooperative banks posted the highest increase in loan funds generated in 2014 (57%) relative to the previous year. This is followed by the universal and commercial banks (23%). In absolute value, bulk (90%) of the total loanable funds generated came from the universal and commercial banks (Table 1).

**Table 1**  
**Loanable Funds Generated by the Banking Industry**  
**and Corresponding Agri-Agra Loan Quota Requirements**  
**for Years 2013 and 2014**  
**(in billion pesos)**

Item	2014		2013		% Increase (Decrease) in Amount
	Amount (PM)	Share (%)	Amount (PM)	Share (%)	
<b>Total Loanable Funds Generated (PM)</b>	<b>2,151.71</b>	<b>100%</b>	<b>1,794.78</b>	<b>100%</b>	<b>19.89%</b>
Universal Banks (UBs) & Commercial Banks (KBs)	1,933.37	90%	1,568.71	87%	23.25%
Thrift Banks (TBs)	167.481	8%	193.61	11%	(13.50%)
Rural Banks (RBs) & Cooperative Banks (CBs)	50.861	2%	32.46	2%	56.69%
<b>25% Agri-Agra Loan Quota Requirement</b>	<b>537.93</b>	<b>25%</b>	<b>448.7</b>	<b>25%</b>	<b>19.89%</b>
15% Agri	322.757	15%	269.22	15%	19.89%
10% Agra	215.171	10%	179.48	10%	19.89%

Source: SRSO, Bangko Sentral ng Pilipinas

## **Banks' Compliance**

Table 2 shows the actual compliance of the banking industry to the Agri-Agra loan quota for the years 2013 and 2014. As of December 31, 2014, the banking industry's Agri-Agra compliance amounted to a total of P358.68 billion, i.e., 33% (or P179.25 billion) short of the P537.93 billion required loan quota. Although actual compliance of banks in the Agri component (P327.26 billion) exceeded the required quota by 1.4% (i.e., by P4.5 billion), banks' compliance in the Agra component (P31.42 billion), on the other hand, was 85% short of the quota for the said component (i.e., by P183.75 billion). Hence, the banks' Agri compliance was able to absorb 15.21% (vis-à-vis the required 15%) of total loanable funds, while Agra compliance only took in a dismal 1.46% (vis-à-vis the required 10%) of the banking industry's total loanable funds.

Banks' compliance with the Agri-Agra loan quota requirement in 2014 was almost equally distributed between "direct" (49% or P176.38 billion) and "alternative" (51% or P182.3 billion) forms of compliance. Direct compliance are actual extension of loans to qualified borrowers for purposes of financing agriculture and agrarian reform activities while alternative compliance are eligible securities, loans and credit where proceeds of which will be used exclusively for agriculture and agrarian reform activities. Table 2 shows a decline in the preference for alternative forms of compliance among the banks compared to the previous year (i.e., 58% of overall compliance in 2013 was in the form of alternative compliance). The declining share of alternative forms of compliance is attributable to the issuance of BSP Circular 736 Series of 2011, which limits the allowable modes of alternative compliance to the Agri-Agra loan quota requirement. The following are the allowable alternative modes of compliance:

- i. Investments in bonds issued by the DBP and the LBP that have been expressly declared as eligible by the DA, or by an agency duly-authorized by the DA;
- ii. Investments in other debt securities that have been declared as eligible by the DA, or by an agency duly-authorized by the DA;
- iii. Paid subscription of shares of stock in the following institutions, such as Accredited rural financial institutions (preferred shares only), Quedan and Rural Credit Guarantee Corporation (Quedancor), or (3) Philippine Crop Insurance Corporation (PCIC); Investments in SDAs of BSP-accredited rural financial institutions;
- iv. Wholesale lending granted to accredited rural financial institutions for the exclusive purpose of on-lending to the agriculture and agrarian reform sector;
- v. Rediscounting facility granted by UBs/KBs to other banks covering eligible agricultural and agrarian reform credits, including loans covered by guarantees of the Quedancor or the PCIC;
- vi. Actual extension of loans intended for the construction and upgrading of infrastructure, including, but not limited to, farm-to-market roads, as well as the provision of post harvest facilities and other public infrastructure;
- vii. Loans to NFA-registered warehousemen/millers/wholesalers for purposes of financing activities;
- viii. Loan to NFA provided that the NFA shall not use the proceeds of said loans for relending;

- ix. Purchase of eligible loans that are not rediscounted with universal banks or commercial banks;

On the other hand, although the amount of alternative compliance in the Agri component stayed constant over the period 2013-2014 (i.e., stabilizing at the P177 billion level), in the case of the Agra component, the amount of alternative compliance still went up 447% from its year-ago level, i.e., from barely P1 billion in 2013, to more than P5 billion in 2014. This suggests that; 1) in the case of the loan quota for agrarian reform beneficiaries or ARBs, banks still prefer to comply through less risky modes; and 2) there are banks having difficulty finding qualified ARBs. At present, the Department of Agrarian Reform (DAR) is yet to finalize their master list of ARBs since their field implementers are still encountering some issues and bottlenecks that affects the finalization of the agrarian reform beneficiaries selection. Hence, the Department of Agrarian Reform has issued new rules and procedures governing the identification, screening and selection of farmworker beneficiaries for haciendas, commercial farms or plantations through Administrative Order No. 10, Series of 2014

Albeit short of the quota required of the banking industry, agrarian loans on the whole still increased by 27% in 2014 relative to the previous year. This is evidence nonetheless of continuing efforts among the banks to strengthen their credit support to the agrarian reform sector. In fact, according to the Bangko Sentral ng Pilipinas (BSP), there were even a few banks that reported excess compliance to the 10% Agra loan quota in 2014 (i.e., reported as aggregately amounting to P720 million for the given year). The concerned banks used the excess compliance to offset their deficiency, on the other hand, in the Agri component of the loan quota requirement..

Loans for the Agri component of the credit quota, meanwhile, increased by 17.2% from 2013, amounting to P327.3 billion in 2014. The increase was essentially solely due to growth in direct lending by the banks to farmers and fisherfolk. Compliance in the Agri component of the loan quota in the form of direct loans to farmers and fisherfolk went up by almost 47% from the 2013 level. Again, this is partly attributable to the issuance of BSP Circular 736 Series of 2011 limiting the allowable alternative forms of compliance. In general, banks' total lending to the Agri-Agra sector in 2014 was 18% higher than the total P303.9 billion recorded in the previous year.

**Table 2**  
**Direct & Alternative Compliance of the Banking Industry**  
**with the Agri-Agra Loan Quota Requirement**  
**for Years 2013 and 2014**  
**(in billion pesos)**

	2014	2013	% Change
<b>Amount of Loan Quota Requirement (P Billion):</b>	<b>537.93</b>	<b>448.7</b>	<b>19.89%</b>
<b>15% AGRI (P Billion)</b>	<b>322.76</b>	<b>269.22</b>	<b>19.89%</b>
<b>10% AGRA (P Billion)</b>	<b>215.17</b>	<b>179.48</b>	<b>19.89%</b>
<b>Actual Compliance with the Loan Quota Requirement (P Billion):</b>	<b>358.68</b>	<b>303.93</b>	<b>18.01%</b>
<b>15% AGRI Actual Compliance (P Billion)</b>	<b>327.26</b>	<b>279.19</b>	<b>17.22%</b>
- Direct Compliance (P Billion)	149.55	102.05	46.55%
- Alternative Compliance (P Billion)	176.99	176.71	0.16%
Actual % of Compliance for AGRI (%)	15.21%	15.56%	(2.25%)
<b>10% AGRA Actual Compliance (P Billion)</b>	<b>31.42</b>	<b>24.74</b>	<b>27%</b>
- Direct Compliance (P Billion)	26.838	24.2	10.86%
- Alternative Compliance (P Billion)	5.31	0.97	447.01%
Actual % of Compliance for AGRA (%)	1.46%	1.38%	5.80%

#### **Agri-Agra Loan Quota Compliance, By Type of Bank**

Table 3 shows the Agri-Agra compliance rate of the banking industry, by type of bank. Consistent with their performance in previous years, Rural and Cooperative Banks again surpassed their Agri-Agra loan quota requirement in 2014 with a compliance rate of 53%. Further, only Rural and Cooperative Banks were able to comply with the 10% Agra loan quota requirement. Situated mainly in the countryside, the clients of Rural and Cooperative Banks are people / enterprises mainly engaged in agricultural or agri-related activities.

On the other hand, while Universal and Commercial Banks (UKBs) were able to comply with their Agri loan quota with a compliance rate of 15.3% in 2014, their Agra loan quota compliance was abysmal at only less than 1% for the same year. Bearing the bulk of the entire banking industry's total capitalization, UKBs are the most risk-averse among the different types of banks and are, therefore, the most reluctant to lend to agriculture, including to ARB-farmers who have little or no loan security to offer.

Thrift banks (TBs) is the only category of banks that failed to comply with the loan quota requirements for both the Agri and Agra components, reaching only up to 10% of the overall 25% Agri-Agra loan quota requirement. Loans provided by TBs mostly went to real estate business, construction and small and medium enterprises. Overall, the banking industry failed to meet the required 25% Agri-Agra loan quota.

**Table 3**  
**Agri-Agra Loan Quota Compliance Rate, By type of Bank**  
**As of year-end 2014, (in Percentage)**

Agri-Agra Loan Quota Requirement (per RA 10000)	Actual Compliance							
	Total		Universal Banks and Commercial Banks (UKBs)		Thrift Banks (TBs)		Rural Banks and CoopBanks (RBs & CBs)	
	Rate (%) a/	Amount (P Billion)	Rate (%) a/	Amount (P Billion)	Rate (%) a/	Amount (P Billion)	Rate (%) a/	Amount (P Billion)
<b>25% Total Loan Quota</b>	<b>16.7 %</b>	<b>358.67</b>	<b>16.3%</b>	<b>314.58</b>	<b>10.3 %</b>		<b>52.7 %</b>	
- 15% Agricultural Loan Quota	15.2%	327.26	15.3%	<b>295.42</b>	8.6%		34.2 %	
- 10% Agrarian Reform Loan Quota	1.5%	31.41	0.99%	<b>19.153</b>	1.7%		18.5 %	

a/ Total compliance (i.e. amount actual lending/invested)/total loanable funds, in %

### Direct vs Alternative Compliance, by Type of Bank

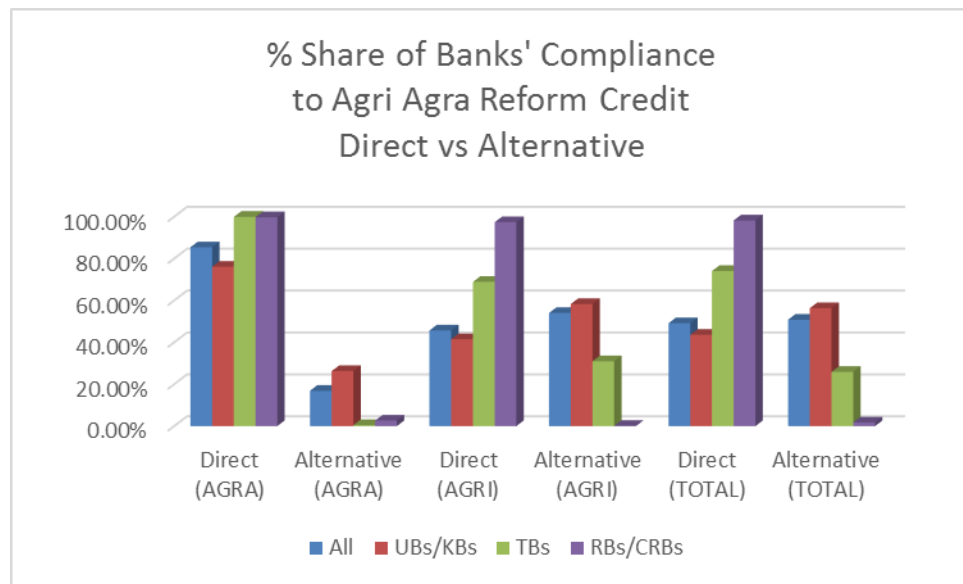
Figure 1 shows the 2014 compliance of banks with the Agri-Agra loan quota through direct and alternative modes, by type of bank. Except only for UKBs, the banks complied with the loan quota requirement more in the form of direct loans. RBs and CBs posted the highest percentage share of direct loans relative to their total agri-agra compliance (98%) followed by thrift banks (74%). UKBs' compliance in the form of direct loans was only 44% vis-à-vis their total loan compliance. Virtusio and Padronia argued that the banking industry pull towards alternative mode of lending because of the less risk involved and also because UKBs do not have the expertise in providing agri-agra credit (cited in Teves, 2014). In absolute amount, UKB's alternative compliance amounted to P 177 billion which is almost half of the total banks compliance (P 358.67 billion) for the agri-agra credit quota (Table 4).

In terms of the agrarian reform credit sub-quota, almost 100% of Agra loans of RBs/CBs as well as TBs were directly lent to beneficiaries of agrarian reform (Figure 1). However, majority (73%) of the agra loans came the UKBs.

**Table 4**  
**Banks' Compliance to RA 10000**  
**As of Year End 2014**  
**(in billion pesos)**

	All Banks	UBs and KBs	TBs	RBs and CBs
Total Loanable Funds Generated	2151.713	1933.371	167.481	50.861
Total Banks Compliance	358.67	314.58	17.30	26.79
Direct Loans	176.38	137.24	12.82	26.32
Alternative Compliance	182.30	177.34	4.48	0.47
Compliance to AGRA	31.42	19.15	2.87	9.39
Direct Loans	26.83	14.58	2.87	9.37
Alternative Compliance	5.31	5.04	0.01	0.25
Excess Compliance with AGRA utilized for AGRI	(0.72)	(0.47)	(0.02)	(0.23)
Compliance to AGRI	327.26	295.43	14.43	17.40
Direct Loans	149.55	122.66	9.95	16.95
Alternative Compliance	176.99	172.30	4.47	0.22
Excess Compliance with AGRA utilized for AGRI	0.72	0.47	0.02	0.23

Figure 1



Reference:

Teves, M. (2014). Improving Credit Access for the Food and Agriculture Sector Through Enhanced Implementation of Existing Policies and New Strategies. UPSE Discussion Paper No. 2014-15. Retrieved from <http://www.econ.upd.edu.ph/dp/index.php/dp/article/viewFile/1469/946>