2014 Year-end Report on Compliance to Agri-Agra Reform Credit (RA10000)

Prepared by Annalyn R. Garay, Project Evaluation Officer III, ACPC Monitoring and Evaluation Division. Edited by Norman William S. Kraft,[i] Director II, ACPC Monitoring and Evaluation Division

Executive Summary

In 2014, the loanable funds generated by the Philippine banking system amounted to a total of P2.15 trillion, increasing by almost 20% from the previous year. To comply with the agri-agra loan quota requirement, the banking system should have earmarked in 2014 at least P537.93 billion (i.e., 25% of the total loanable funds) for lending to agriculture and fisheries, of which P215.17 billion (10%) should be for lending to agrarian reform beneficiaries.

As of December 31, 2014, Agri-Agra compliance of the banking industry amounted to a total of P358.68 billion, 33% short of the P537.93 billion loan quota. Although compliance of banks in the Agri component exceeded the required quota by 1.4%, compliance of banks in the Agra component was 85% short of the quota. The under-compliance of banks to the mandatory Agra credit allocation can be due to the difficulty in finding qualified Agrarian Reform Beneficiaries" or ARBs. At present, the Department of Agrarian Reform (DAR) has yet to finalize its master list of ARBs. Although short of the quota, total agrarian loans increased by 27% in 2014. This points to continuing efforts on the part of the banks to strengthen their financing support to the sector.

The Agri-Agra loan quota in 2014 was almost equally distributed between "direct" and "alternative" modes, but it is worth noting that there was a decline in the preference of banks for alternative forms of compliance compared to the previous year which can be attributed to the issuance of BSP Circular 736 Series of 2011, limiting the allowable modes of alternative compliance to the Agri-Agra loan quota requirement. In the case of the Agra component, the amount of alternative compliance still went up 447% from its year-ago level, indicating that banks still prefer to comply through less risky modes.

Table of Contents

List of Tables

List of Figures

1. Loanable Funds Generated

In 2014, the loanable funds generated by the Philippine banking system amounted to a total of P2.15 trillion, increasing by almost 20% from the previous year. Under the Agri-Agra Reform Credit Act of 2009 (Republic Act 10000) all banks are mandated to set aside 25 percent of their loanable funds for agriculture and fisheries; 15% for agriculture and 10% for agrarian reform beneficiaries (ARBs). To comply with this loan quota requirement, the banking system should have earmarked in 2014 at least P537.93 billion (i.e., 25% of the total loanable funds) for lending to agriculture and fisheries, of which P215.17 billion (10%) should be for lending to agrarian reform beneficiaries. The comparative amounts of loanable funds generated by the entire banking system and the corresponding amounts of loanable funds for the 15% Agri and 10% Agra loan quota requirements as mandated by RA 10000, for 2013 and 2014, are shown in Table 1.

Among the different types of banks, Rural Banks (RBs) and Cooperative Banks (CBs) posted the highest increase in loan funds generated (57%) relative to the previous year, followed by Universal and Commercial Banks (UKBs) (23%). On the other hand, loanable funds generated by Thrift Banks went down by almost 14%. In absolute value, UKBs accounted for 90% of the total loanable funds generated by the entire banking system.

Table 1. Loanable Funds Generated by the Banking Industry and Corresponding Agri-Agra Loan Quota Requirements, 2013 and 2014 (in Billion Pesos)

Parameters	2014		2013		% Change
	Amount	Share (%)	Amount	Share (%)	
Total Loanable Funds Generated	**2,151.71**	**100**	**1,794.78**	**100**	**19.89**
Universal Banks & Commercial Banks (UKBs)	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
25% Agri-Agra Loan Quota Requirement	**537.93**	**25**	**448.7**	**25**	**19.89**
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

2. Compliance with the Agri-Agra Credit Reform Credit Act

As of December 31, 2014, Agri-Agra compliance of the banking industry amounted to a total of P358.68 billion, i.e., 33% short of the P537.93 billion loan quota (Table 2). Although compliance of banks in the Agri component (i.e., P327.26 billion) exceeded the required quota by 1.4%. Compliance of the banks in the Agra component (i.e., P31.42 billion), on the other hand, was 85% short of the required quota. Hence, while the Agri compliance of the banking industry was able to absorb 15.21% (vis-à-vis the required 15%) of the total loanable funds, Agra compliance, on the other hand, only took a dismal 1.46% (vis-à-vis the required 10% of the total loanable funds).

The main reason for the under-compliance of banks to the mandatory Agra credit allocation is their difficulty in finding qualified Agrarian Reform Beneficiaries or ARBs. At present, the Department of Agrarian Reform (DAR) has yet to finalize its master list of ARBs. The DAR 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. Nonetheless, while short of the quota, total agrarian loans increased by 27% in 2014 (Table 2). This points to continuing efforts on the part of the banks to strengthen their financing support to the sector.[1]

Loans for the Agri component of the credit quota, on the other hand, increased by 17.2% from 2013, amounting to P327.3 billion in 2014. The increase was 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.

Table 2. Direct and Alternative Compliance of the Banking Industry with the Agri-Agra Loan Quota, 2013 and 2014

	2013	2014	% Change
Minimum Amount Required for AGRI-AGRA (Billion Pesos)	**448.70**	**537.93**	**19.89%**
15% AGRI (Billion Pesos)	269.22	322.76	19.89%
10% AGRA (Billion Pesos)	179.48	215.17	19.89%
Compliance with AGRI (Billion Pesos)	**279.19**	**327.26**	**17.22%**
Direct Compliance (Billion Pesos)	102.05	149.55	46.55%
Alternative Compliance (Billion Pesos)	176.71	176.99	0.16%
Compliance with AGRI (%)	15.56%	15.21%	(2.25%)
Compliance with AGRA (Billion Pesos)	**24.74**	**31.42**	**27.00%**
Direct Compliance (Billion Pesos)	24.2	26.838	10.86%
Alternative Compliance (Billion Pesos)	0.97	5.31	447.01%
Compliance with AGRA (%)	1.38%	1.46%	5.80%

[1] According to the Bangko Sental 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.

Total Compliance with AGRI-AGRA (Billion Pesos)	**303.93**	**358.68**	**18.01%**
Direct Compliance (Billion Pesos)	**126.25**	**176.38**	**39.71%**
Alternative Compliance (Billion Pesos)	**177.68**	**182.30**	**2.60%**

Overall, the compliance of the banks with the Agri-Agra loan quota in 2014 was almost equally distributed between "direct" (i.e., 49% or P176.38 billion) and "alternative" (i.e., 51% or P182.3 billion) forms of compliance.[2] However, there was a decline in the preference of the banks for alternative forms of compliance in 2014 (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.[3]

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), the amount of alternative compliance in the case of the Agra component went up by 447% over the same period, i.e., from barely P1 billion in 2013, to more than P5 billion in 2014 (Table 2). This indicates greater preference still among the banks for less risky modes of compliance in the case of the Agra component.

In general, total lending of the banks to the Agri-Agra sector in 2014 was 18% higher than the total P303.9 billion recorded in the previous year.

---

[2] *Direct compliance* refers to actual extension of loans to qualified borrowers for purposes of financing agriculture and agrarian reform activities. *Alternative compliance* refers to other forms of compliance to the Agri-Agra loan quota allowed under RA 10000. Alternative compliance includes eligible securities, loans and credit, the proceeds of which will be used exclusively for agriculture and agrarian reform activities.

[3] Following are the allowable alternative modes of compliance to RA 10000:

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.

2.1. Agri-Agra Loan Quota Compliance, By Type of Bank

The Agri-Agra compliance of the banking industry, by type of bank, is shown in Table 3. Consistent with their performance in previous years, RBs and CBs again surpassed their Agri-Agra loan quota requirement in 2014 with a compliance of 53%. Further, only RBs and CBs were able to comply with the 10% Agra loan quota requirement.

On the other hand, while UKBs were able to register a compliance of 15.3% to their Agri loan quota in 2014, their compliance to the Agra loan quota was only less than 1%, i.e., way short of the 10% required minimum allocation.

"Thrift Banks" (TBs) is the only category of banks that failed to comply with the loan quota requirements in both the Agri and Agra components, reaching only up to 10% compliance. 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. 2014 Agri-Agra Loan Quota Compliance, By Type of Bank

Agri-Agra Loan Quota Requirement (per RA 10000)	Compliance							
	Total		Universal Banks and Commercial Banks (UKBs)		Thrift Banks (TBs)		Rural Banks and Cooperative Banks (RBs & CBs)	
	Rate (%) a/	Amount (P Billion)	Rate (%) a/	Amount (P Billion)	Rate (%) a/	Amount (P Billion)	Rate (%) a/	Amount (P Billion)
25% Total Loan Quota	**16.7%**	**358.67**	**16.3%**	**314.58**	**10.3%**	**17.30**	**52.7%**	**26.79**
- 15% Agricultural Loan Quota	15.2%	327.26	15.3%	**295.42**	8.6%	14.43	34.2%	17.40
- 10% Agrarian Reform Loan Quota	1.5%	31.41	0.99%	**19.153**	1.7%	2.87	18.5%	9.39

a/ Total Compliance (i.e., Amount of Lending/Invested)/Total Loanable Funds, in %

2.2. Direct vs Alternative Compliance, by Type of Bank

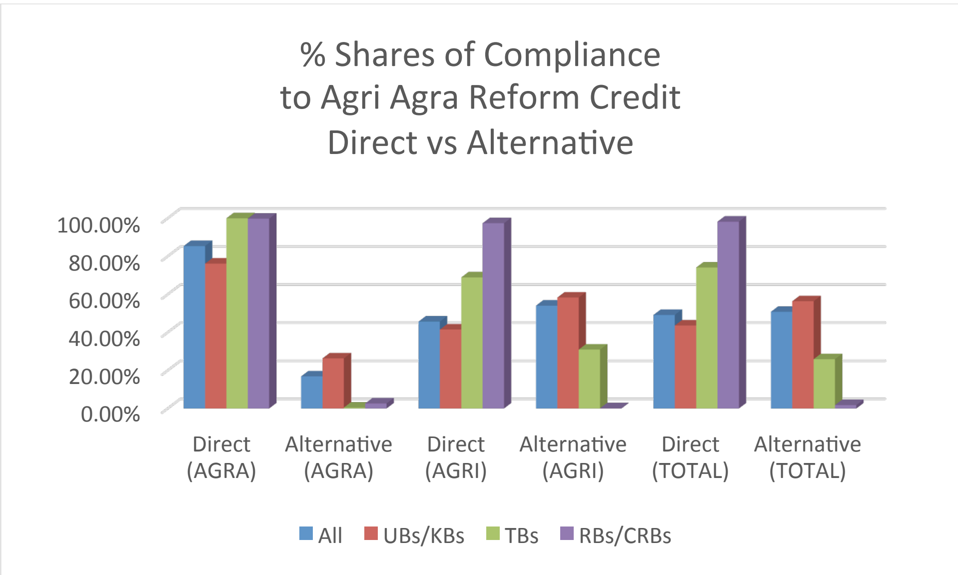
The 2014 compliance of banks with the Agri-Agra loan quota through direct and alternative modes, by type of bank is depicted in Figure 1. Except for UKBs, the banks complied with the loan quota requirement more in the form of direct loans. RBs and CBs posted the highest percentage share of direct loans as compliance to the Agri-Agra quota (i.e., 98%) followed by Thrift Banks (i.e., 74%) (Table 4). The direct loans of UKBs accounted for only 44% of the compliance to the Agri-Agra loan quota. Compliance by UKBs through alternative modes amounted to a total of P177 billion, accounting for almost half of the aggregate total compliance of all the banks. This validates the observation that the banking industry pulls towards alternative modes of lending because of the less risk involved and because of the lack of expertise among UKBs in providing Agri-Agra credit (Teves, 2014).

In terms of the agrarian reform credit sub-quota, almost 100% of the Agra loan quota compliance of RBs/CBs (i.e., 99.78%) as well as TBs (i.e., 99.65%) were in the form of direct loans to beneficiaries of agrarian reform (Figure 1). On the other hand, majority (i.e., 73%) of the total aggregate amount of Agra loans were released by UKBs.

Table 4. 2014 Compliance of Banks to RA 10000 (in Billion Pesos)

Parameters	All Banks	Types of Banks		
		UKBs	TBs	RBs and CBs
Total Loanable Funds Generated	2151.71	1933.37	167.48	50.86
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 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
Compliance to AGRA	31.42	19.15	2.88	9.39
- *Direct Loans*	26.83	14.58	2.87	9.37
- *Alternative Compliance*	5.31	5.04	0.01	0.25

Figure 1. Percent Shares of Compliance to Agri-Agra Reform Credit Act, Direct vs. Alternative



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