

### **Chapter 3**

#### **Credit**

Section 20. *Declaration of Policy. – It is hereby declared the policy of the State to alleviate poverty and promote vigorous growth in the countryside through access to credit by small farmers, fisherfolk, particularly the women involved in the production, processing and trading of agriculture and fisheries products and the small and medium scale enterprises (SMEs) and industries engaged in agriculture and fisheries.*

*Interest rates shall be determined by market forces, provided that, existing credit arrangements with agrarian reform beneficiaries are not affected. Emphasis of the credit program shall be on proper management and utilization.*

*In this regard, the State enjoins the active participation of the banking sector and government financial institutions in the rural financial system.*

Rule 20.1. The Secretary, as Chairperson of the Agricultural Credit Policy Council (ACPC), in collaboration with the National Credit Council (NCC), shall organize dialogue sessions among all stakeholders in rural, agricultural and fisheries financing. The sessions shall be held at least on a semestral basis beginning the second semester of 1998. The sessions will assess the status of rural, agricultural and fisheries financing and recommend and initiate policies, actions and mechanisms for the improvement of the banking and financial system's contribution to agricultural and fisheries modernization.

Section 21. *Phase-out of the Directed Credit Programs (DCPs) and Provision for the Agro-Industry Modernization Credit and Financing Program (AMCFP). The Department shall implement existing DCPs: however, the Department shall, within a period of four (4) years from the effectivity of this Act, phase-out all DCPs and deposit all its loanable funds including those under the Comprehensive Agricultural Loan Fund (CALF) including new funds provided by this Act for the AMCFP and transfer the Management thereof to cooperative banks, rural banks, government financial institutions and viable NGOs for the Agro-Industry Modernization Credit Financing Program (AMCFP). Interest earnings of the said deposited loan funds shall be reverted to the AMCFP.*

Rule 21.1. The Executive Director (ED) and staff of the Agricultural Credit Policy Council (ACPC), jointly with the National Credit Council shall, through a participatory process with the beneficiaries and stakeholders, formulate the program of phase-out of all directed credit programs (DCP), including the Comprehensive Agricultural Loan Fund (CALF). The program shall include the plan, guidelines and timetable for the inventory, appraisal, accounting and fund transfer and phase-out of the DCPs so that the DCP funds shall be consolidated in order to finance the Agro-Industry Modernization Credit and Financing Program (AMCFP). The phase-out program shall be consulted with the specific agencies and units in managing and operating the various DCPs. The proposed program shall be submitted for approval

by the ACPC ED to the ACPC Council and the NCC on or before September 30, 1998. Upon approval, the program will be implemented by the Department and completed on or before February 9, 2002.

Section 22. *Coverage. – An Agriculture, fisheries and agrarian reform credit and financing system shall be designed for the use and benefit of farmers, fisherfolk, those engage in food and non-food production, processing and trading, cooperatives, farmers’/fisherfolk’s organization, and SMEs engage in agriculture and fisheries, hereinafter referred to in this chapter as the “beneficiaries.”*

Rule 22.1. The ED and staff of the ACPC, in collaboration with the NCC, shall draft the design of the AMCFP and submit the design for approval by the ACPC Council and the NCC on or before December 30, 1998. The AMCFP shall be operational on or before March 30, 1999 and financed from, among other sources, the proceeds of the phase-out of DCPs. The draft design shall also cover the operating guidelines for the AMCFP; funding sources and requirements; the eligibility criteria for participating financial institutions; and modes, terms and conditions of financial arrangements and instruments, including safeguards. The ACPC ED shall consult the private sector financial system in the drafting process and shall call meetings and workshops with the Bankers’ Association of the Philippines, the Chamber of Thrift Banks, the Financial Executives Association of the Philippines (FINEX), the Development Bankers’ Association (DBAP), the Rural Bankers’ Association (RBAP), the Federation of Cooperative Banks (*Bangkoop*) and other concerned groups.

Section 23. *Scope of the Agro-Industry Modernization Credit and Financing Program (AMCFP). – The Agro-Industry Modernization Credit and Financing Program shall include the packaging and delivery of various credit assistance programs for the following:*

- a) *Agriculture and Fisheries Production including processing of fisheries and agri-based products and farm inputs;*
- b) *Acquisition of work animals, farm and fishery equipment and machinery;*
- c) *Acquisition of seeds, fertilizer, poultry, livestock, feeds and other similar items;*
- d) *Procurement of agriculture and fisheries products for storage, trading, processing and distribution;*
- e) *Acquisition of water pumps and installation of tube wells for irrigation;*
- f) *Construction, acquisition and repair of facilities for production, processing, storage, transportation, communication, marketing and such other facilities in support of agriculture and fisheries;*
- g) *Working capital for agriculture and fisheries graduates to enable them to engage in agriculture and fisheries-related economic activities;*
- h) *Agribusiness activities which support soil and water conservation and ecology-enhancing activities;*
- i) *Privately-funded and LGU-funded irrigation systems that are designed to protect the watershed;*
- j) *Working capital for long-gestating projects; and*
- k) *Credit guarantees on uncollateralized loans to farmers and fisherfolk.*

Rule 23.1. The LBP, DBP and QuedanCor shall initiate the Financing of viable long-gestating projects within the second quarter of 1998. Such projects will include plantation crops, orchards, tree farms and other high-value crops consistent with the provisions of RA 7900.

Rule 23.2. Subject to the viability of the projects and the credit worthiness of the borrowers, the coverage of the AMCFP in items a through k of Section 23 above are further specified as follows:

- Rule 23.2.1. Agriculture and fisheries production including processing of fisheries and agri-based products and farm inputs including but not limited to field and sea beds preparation for mariculture, construction of fishponds, materials used in canning, dehydration, manufacturing of fertilizers and pesticides and weaving nets;
- Rule 23.2.2. Acquisition of work animals, farm and fishery equipment and machinery but not limited to *carabaos*, tillers, harvesters and threshers of all applicable power ranges, post-harvest facilities, weighing scales and packaging equipment, fishing vessels and gears;
- Rule 23.2.3. Acquisition of seeds, fertilizer, poultry, livestock, feeds and other similar items including but not limited to the procurement of high-yielding varieties , organic and inorganic fertilizers, hybrid animal stock and fish meal;
- Rule 23.2.4. Procurement of agriculture and fisheries products for storage, trading, processing and distribution including but not limited to procurement, forward-selling, order-taking and contract-growing of rice and corn, legumes, fibers, fruits and rootstocks, coconut, raw rubber, livestock and meat products, fish and other marine products;
- Rule 23.2.5. Acquisition of water pumps and installation of tube wells and low-lift pumps for irrigation including but not limited to the procurement of power trains, motors, pipe, tubing's, accessories and spare parts;
- Rule 23.2.6. Construction, acquisition and repair of facilities for production, processing, storage, transportation, communication, marketing and such other facilities in support of agriculture and fisheries including but not limited to the equipment, spare parts and infrastructure of processing plants, ice plants and cold storage facilities, grain dryers, warehouses, grain silos, reefer vans, barges, trucks and vehicles, IT and telecommunications equipment;
- Rule 23.2.7. Working capital for agriculture and fisheries graduates to enable them to engage in agriculture and fisheries-related economic activities including but not limited to production, processing and trading of agricultural and fishery product and inputs, research and development activities, extension work, management consultancy and community organizing;
- Rule 23.2.8. Agribusiness activities which support soil and water conservation and ecology-enhancing activities including but not limited to research, development and extension activities and management consultancy in soil, water and resources conservation.

Rule 23.2.9. Privately-funded and LGU funded irrigation systems that are designed to protect the watershed including but not limited to development, planning, construction, operation and maintenance of communal irrigation systems, small water impounding projects (SWIPs), STWs, ITTWs, and LLPs;

Rule 23.2.10. Working capital for long-gestating projects including but not limited to the cost of labor such as land preparation and salaries and wages for their staff, employees and consultants, and inputs such as seeds, seedlings, fertilizers, pesticides, transportation and farm machinery, communication and IT equipment; and,

Rule 23.2.11. Credit guarantees, subject to the following criteria: (a) credit-worthiness of the borrowers, (b) competence in project and loan management, and (c) Project viability.

Section 24. *Review of the mandates of the Land Bank of the Philippines, Crop Insurance Corporation, Guarantee Fund FOR Small and Medium Enterprises, Quedan and Rural Credit Guarantee Corporation, Agricultural Credit Policy Council. – The Department of Finance shall commission an independent review of the charters and the respective programs of the Land Bank of the Philippines (LBP), Philippine Crop Insurance Corporation (PCIC), Guarantee Fund for Small and Medium Enterprises (GSFME), Quedan and Rural Credit Guarantee Corporation (Quedancor), and the Agricultural Credit Policy Council (ACPC), and recommend policy changes and other measures to induce the private sector's participation in lending to agriculture and to improve credit access by farmers and fisherfolk: Provided, That agriculture and fisheries projects with long gestation period shall be entitled to a longer grace period in repaying the loan based on the economic life of the project.*

*The Land Bank of the Philippines, shall, in accordance with its original mandate, focus primarily on plans and programs in relation to the financing of agrarian reform and the delivery of credit services to the agriculture and fisheries sectors, especially to small farmers and fisherfolk.*

*The review shall start six (6) months after the enactment of this Act. Thereafter, the review shall make recommendations to the appropriate Congressional Committees for possible legislative actions and to the Executive Branch for policy and program changes within six (6) months after submission.*

Rule 24.1. The Secretary of Finance shall issue a directive on or before August 30, 1998 to execute the review mandated above. The review shall consider the structure and results so far of the work of the NCC ongoing since 1993, and shall provide for substantial inputs from the private sector and intended beneficiaries. The Secretary of Finance shall engage an independent panel of experts to perform the review. The review will be financed by the guarantee institutions according to a sharing formula determined by the Secretary of Finance. The Review shall start no later than November 1, 1998 and shall be completed by March 30, 1999.

Rule 24.2. On or before May 1, 1999 the results of the review shall be presented for executive action to the Office of the President; the Secretaries of Finance and Agriculture; the BSP; the ACPC Council; the NCC; the Government Boards of the Land Bank of the Philippines (LBP), Philippine Crop Insurance Corporation, the Guarantee Fund for Small and Medium Enterprises, QuedanCor, stakeholders and beneficiaries, and finally the appropriate Congressional Committees for possible legislation.

Rule 24.3. The *Bangko Sentral ng Pilipinas* and the ACPC Council shall formulate, through a participatory process of involving representatives of lenders, beneficiaries and independent financial and agribusiness analysts, the implementing guidelines for the setting of variable grace periods on the repayment on loans and guarantees to long-gestating and viable agricultural and fisheries projects. The guidelines shall be presented on the Monetary Board and the Secretaries of Agriculture and Finance for consideration and implementation on or before December 30, 1998.

Section 25. *Rationalization of Credit Guarantee Schemes and Funds. – All existing credit guarantee schemes and funds applicable to the agriculture and fishery sectors shall be rationalized and consolidated into an Agriculture and Fisheries Credit Guarantee Fund. The rationalization and consolidation shall cover the credit and guarantee schemes and funds operated by Quedancor, the GFSME and the Comprehensive Agricultural Loan Fund. The Agriculture and Fisheries Credit Guarantee Fund shall be managed and implemented by the Quedancor, provided that, representation to the Quedancor Board shall be grated to cooperatives, local government units and rural financial institutions; provided further that, credit guarantee shall be given only to small-scale agriculture and fisheries activities and to countryside micro-, small, and medium enterprises. It may also cover loan guarantees for purchase orders and sales to contracts.*

*The Agriculture and Fisheries Credit Guarantee Fund shall be funded by at least ten percent (10%) of the funding allocation for the AMCFP.*

Rule 25.1. The QuedanCor, subject to the overview of the ACPC Council and the NCC, shall engage an independent team of experts to undertake a review of the performance of the various guarantee schemes and funds and to draft a rationalization plan for these schemes and funds, and a design of the Agriculture and Fisheries Credit Guarantee Fund (AFCGF). The Terms of Reference of the review team shall be jointly drafted by the QuedanCor and GFSME for approval by the Secretary on or before August 30, 1998.

Rule 25.2. The results of the review and the subsequent rationalization plan shall be submitted by the QuedanCor for approval by the Secretaries of Finance and Agriculture, the ACPC Council and the NCC on or before June 30, 1999.

Rule 25.3. The Department and the QuedanCor shall implement the rationalization plan upon its approval. Implementation shall include the transfer of funds allocated from the AMCFP and the funds consolidated as a result of the rationalization and consolidation of the credit and guarantee funds.

Rule 25.4. the Quedancor Board shall be enlarged, effective August 30, 1998 by representatives of the following sectors: cooperatives, local government units and rural financial institutions. The representatives shall be appointed by the Secretary upon the recommendation of the QuedanCor President based on consultations with the respective sectoral associations.