ACPC
POLICY FORUM

DEPARTMENT OF AGRICULTURE
AGRICULTURAL CREDIT POLICY COUNCIL

Theme:

"THE 2020 STATE OF AGRICULTURAL FINANCING IN THE PHILIPPINES"

DEPARTMENT OF AGRICULTURE
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ACPC

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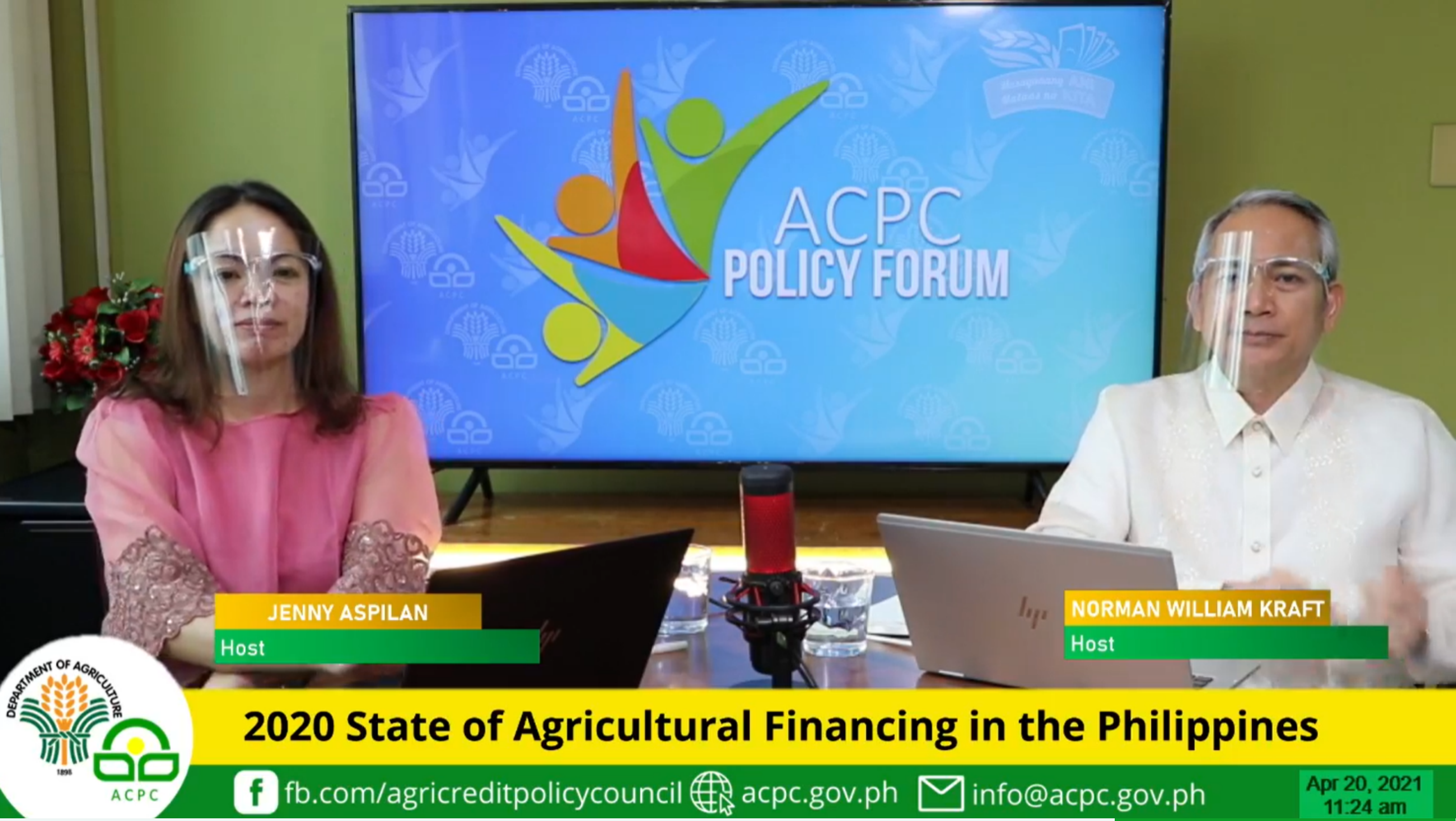


A. INTRODUCTION

The Department of Agriculture-Agricultural Credit Policy Council (DA-ACPC) conducted its first virtual policy forum on 20 April 2021 with the theme "The 2020 State of Agricultural Financing in the Philippines". The Policy Forum aimed to bring together stakeholders from the private and government financing sectors to discuss the current state of agricultural lending, credit guarantee and insurance in the country and foster greater awareness and appreciation for the various agricultural credit and support programs for farmers and fisherfolk.

Attendees of the Policy Forum include rural and agricultural finance experts, practitioners and other stakeholders representing various sectorssuch as farmers, fisherfolk, young agricultural entrepreneurs, banks and non-bank institutions, cooperatives, policymakers, researchers and academicians.[1]

The Forum was organized into three areas of agricultural financing, namely: (1) agricultural credit including loan demand and sustainable financing of agricultural production of small farmers and fisherfolk, (2) credit guarantee program, and (3) agricultural insurance.

[1] There were 331 participants via Zoom and 21,335 who viewed the FB live streaming with 3,490 who shared/liked/ commented on the Forum feed.

B. AGRICULTURAL CREDIT

1. An Overview of the State of Agricultural Credit in the Philippines, by Ms. Magdalena S. Casuga, Director II, DA-ACPC

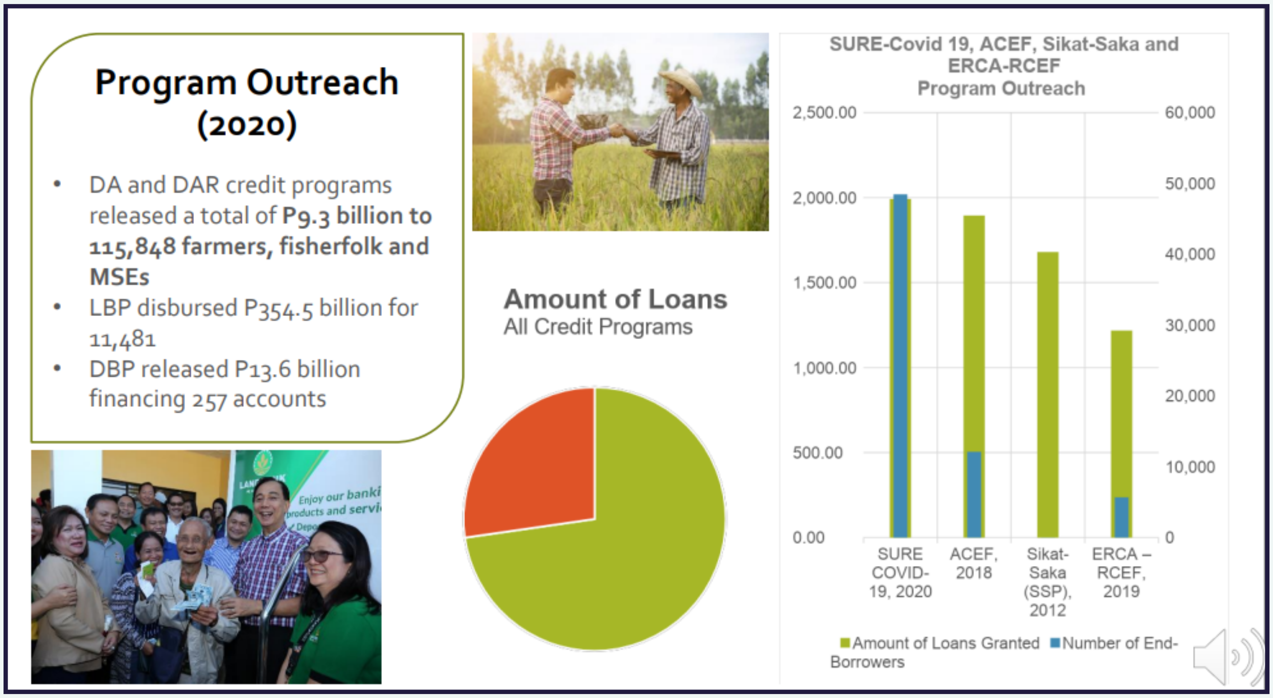
Banks Loans for Agriculture.[2] The agriculture sector account for only 6% of total loans of banks amounting to P615 billion in 2020. This level of bank support is way below the required lending banks to the sector under Agri-Agra Reform Credit Act of 2009[3], which mandates all banks to set aside at least 25% of their total loanable funds – 15% for agriculture in general and at least 10% for agrarian reform beneficiaries (ARBs).

In 2020, the banks' compliance rates were only 9% for agriculture and less than 1% for ARBs for an overall compliance rate of only 10%. anks has been under-compliant with the law, since 2011 particularly with regard to the minimum 10% agrarian reform credit requirement. Early this year, the implementing rules and regulations (IRR) of the law has been amended by allowing more forms of compliance and reducing the challenges faced by banks in complying with the law. This is expected to facilitate higher investments in agriculture and agrarian sector.

Government credit programs for agriculture. There are currently 36 government-funded programs that provide loans to agriculture comprising of: (a) 15 credit programs of the DA and its attached agencies mainly for small farmers and fishers, which aim to contribute to increasing production and incomes of the agriculture and fisheries sector;

[2] Agriculture in this report includes fisheries and forestry.

[3] Republic Act 10000 also known as the Agri-Agra Law.

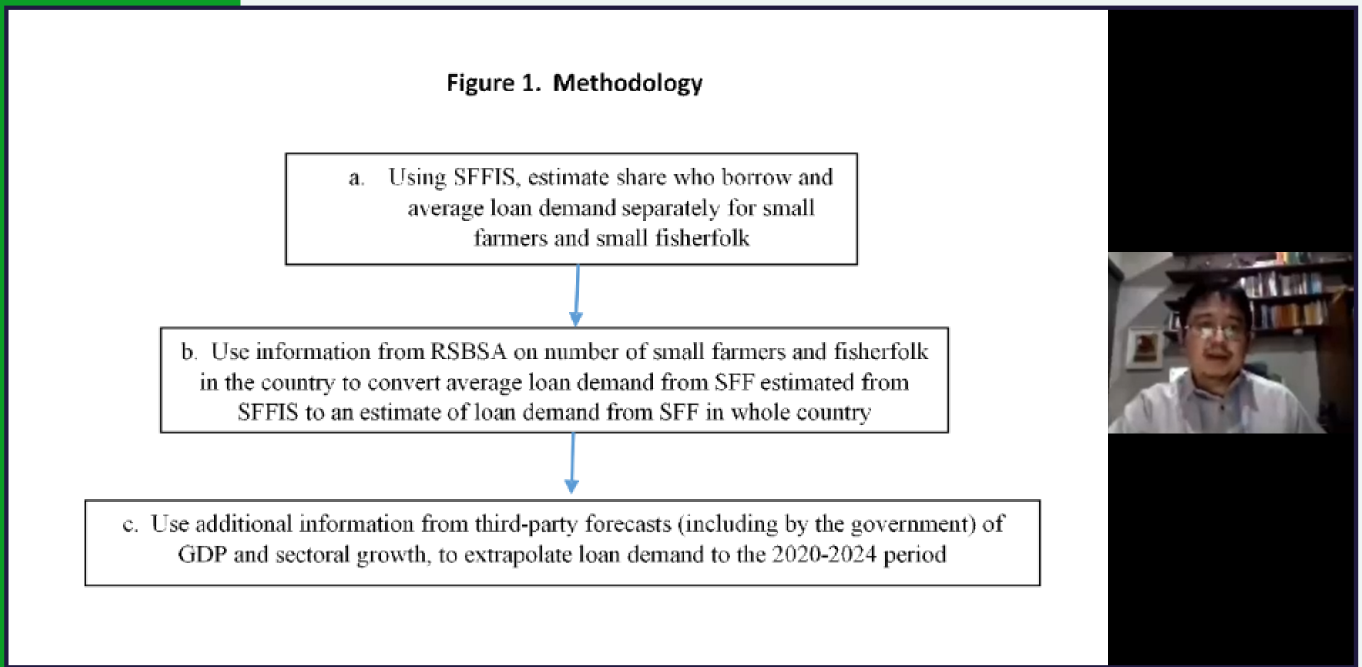


(b) 2 loaning programs of the Department of Agrarian Reform (DAR) for the development of agrarian reform beneficiaries (ARBs); (c) 17 credit facilities of the Land Bank of the Philippines (LBP) aside from a number of credit programs it administers for the DA and the DAR; and (d) 2 lending windows of the Development Bank of the Philippines (DBP) for agriculture-based micro, small, and medium enterprises (MSMEs). These programs generally have the same objective but quite different terms and conditions. Most DA and DAR programs do not require collateral and are charged with zero or low (2% per annum) interest rate. On the other hand, LBP and DBP generally require loan collateral and carry market-determined interest rates.

In 2020, the DA and DAR credit programs released a total of P9.3 billion to about 116,000 farmers, fisherfolk and MSEs. This accounted for a miniscule proportion of total credit going to the agriculture sector. In contrast, LBP disbursed P354 billion in the same year for more than 11,000 accounts while DBP released P14 billion to 250 accounts.

Small farmers' access to credit. Based on a nationwide sample survey of small farmers and fisherfolk conducted by ACPC in 2017, 52% of small farmers and fishers availed of a loan. About 64% of these borrowers obtained a loan from a bank or other formal source. This means that 33% of small farmers have had access to formal credit.

Of the total loans availed, 45% were obtained from non-banks such as cooperatives, farmer associations, micro financing non-government organizations, financing companies, and pawnshops. Only 18% were obtained from banks, which are mostly rural banks while 37% were borrowed from informal sources, which are mainly family and friends.



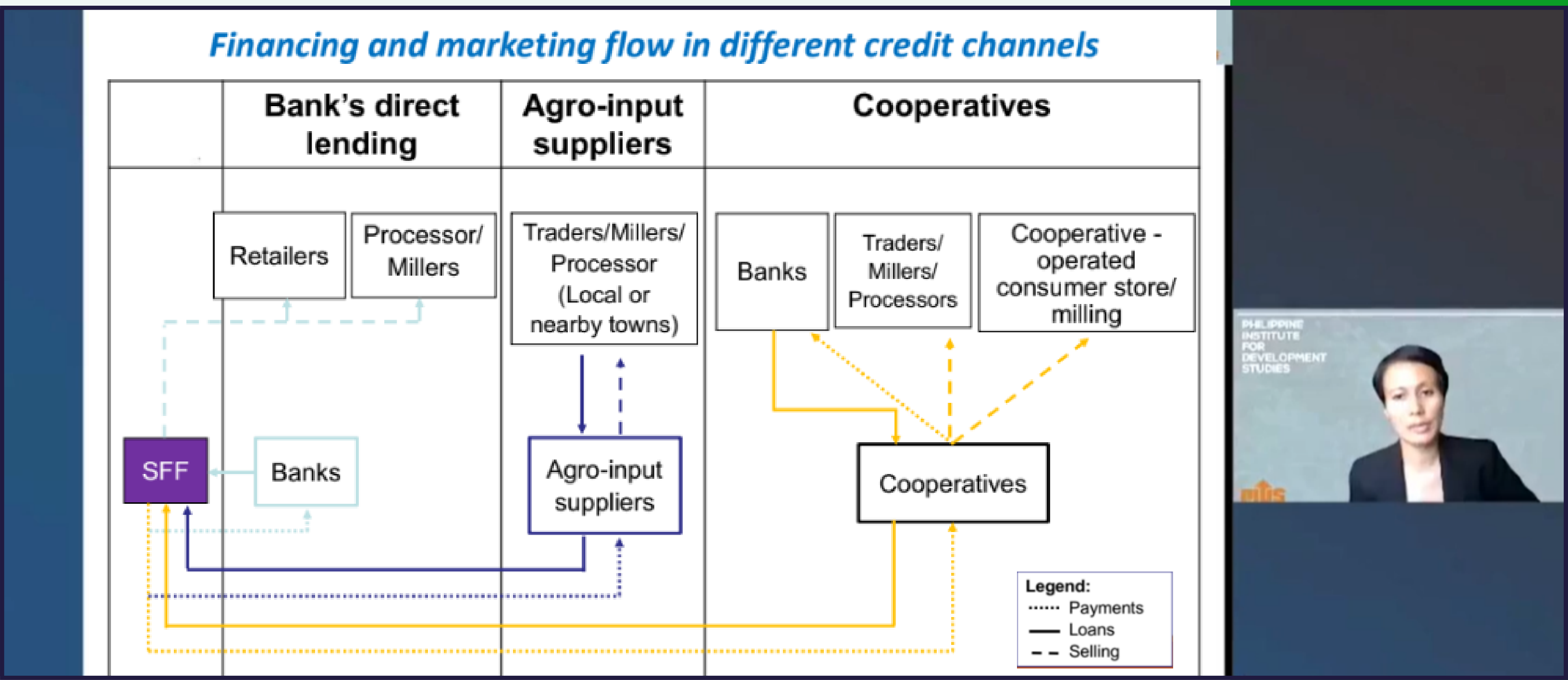
2. **Projecting Loan Demand from Small Farmers and Fishers in the Philippines**[4]**,** by Geoffrey Ducanes, Consultant, Philippine Institute for Development Studies (PIDS)

A method for estimating loan demand from small farmers and small fishers (SFF) was developed and applied to project SFF loan demand up to 2024. The method uses a patchwork of data: (a) estimated proportion of SFF who can be expected to borrow, how much they are expected to borrow, and the share by crop/livestock/fish type in total loan demand from the ACPC's Small Farmers and Fisherfolk Indebtedness Survey (SFFIS); (b) estimated number of SFF in the country from the Registry System for Basic Sectors in Agriculture (RSBSA); and (c) inflation and projected (or targeted) sectoral gross value added growth to project SFF loan demand into the future.

The loan demand for SFF was estimated to be from P190 billion (low estimate) to P407 billion in 2021. This is projected to grow to P223 billion (low estimate) to P 478 billion (high estimate) in 2024. The COVID-19 crisis is likely to push loan demand from SFF upwards, from a combination of more SFF needing to borrow and to borrow a higher amount, plus the likely increase in the number of SFF as some workers who have lost their jobs in industry and services go back to agriculture.

Many small farmers and fishers belong to the working poor[3] and are among most vulnerable members of the population. Their number is expected to grow, and in fact there is evidence it has already grown, as a result of the COVID-19-induced decline in the industry and services sectors. The government should ensure there is adequate fund, whether from government or from formal private sources, to meet the loan demand of small farmers and fishers for purposes of production, while still maintaining prudence. Not only will this help small farmers and fishers keep their head above poverty, it would help boost food security in the country in the present time when there are continuing risks of supply chain disruptions.

[4] Part 1 of "The Assessment of Credit Demand of Small Farmers and Fisherfolk", a study commissioned by the DA-ACPC to the PIDS completed in November 2020.



3. Towards a More Sustainable Financing of Small Farmers and Fisherfolk's Agricultural Production,[5] by Dr. Connie Bayudan-Dacuycuy, Senior Research Fellow, PIDS

Despite government efforts in recent years to intensity affordable and easy access retail lending, significant problems including lack of markets and low prices remain which have significant implications on the SFF's overall repayment capacity and credit rating. These lending programs are unlikely to become successful if financing and production are not viewed in the bigger context of a value chain financing (AVCF).

While AVCF is specific to crops and may differ depending on the available players and resources in communities, the government can set-up the elements necessary for the development of an AVCF that is sustainable and independent of government subsidies in the long-run. Government credit programs have to be strategic and targeted and should be designed not just to give access to credit but to capacitate the SFF, farmers' organizations and cooperatives towards the establishment of AVCFs.

In the short-run, a facilitator-driven AVCF is recommended to pave the way for an inclusive AVCF. Several critical elements are highlighted. These include (a) the capacity-building and reshaping mindsets among the SFF and the key role of associations in mobilizing the SFF to actively participate in government-led consultation and training, (b) the adoption of technology, (c) the improvement in risk-mitigating measures such as the development of savings habit among the SFF and the development of innovative agricultural insurance, (d) the strengthening of links between agro-input suppliers and financial institutions, (e) the participation of banks and conduits in forging

[5] Part 2 of "The Assessment of Credit Demand of Small Farmers and Fisherfolk", a study commissioned by the DA-ACPC to the PIDS completed in November 2020.

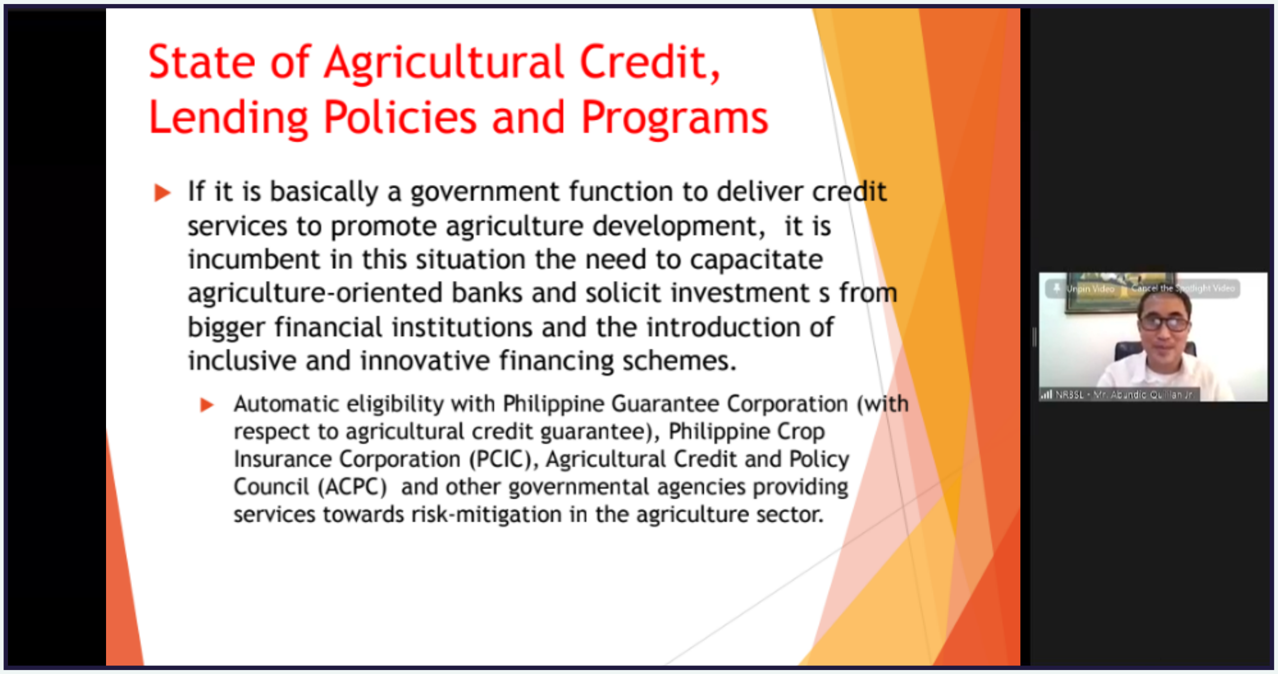
SFF links with markets, and (f) the establishment of a credit information bureau for rural credit.

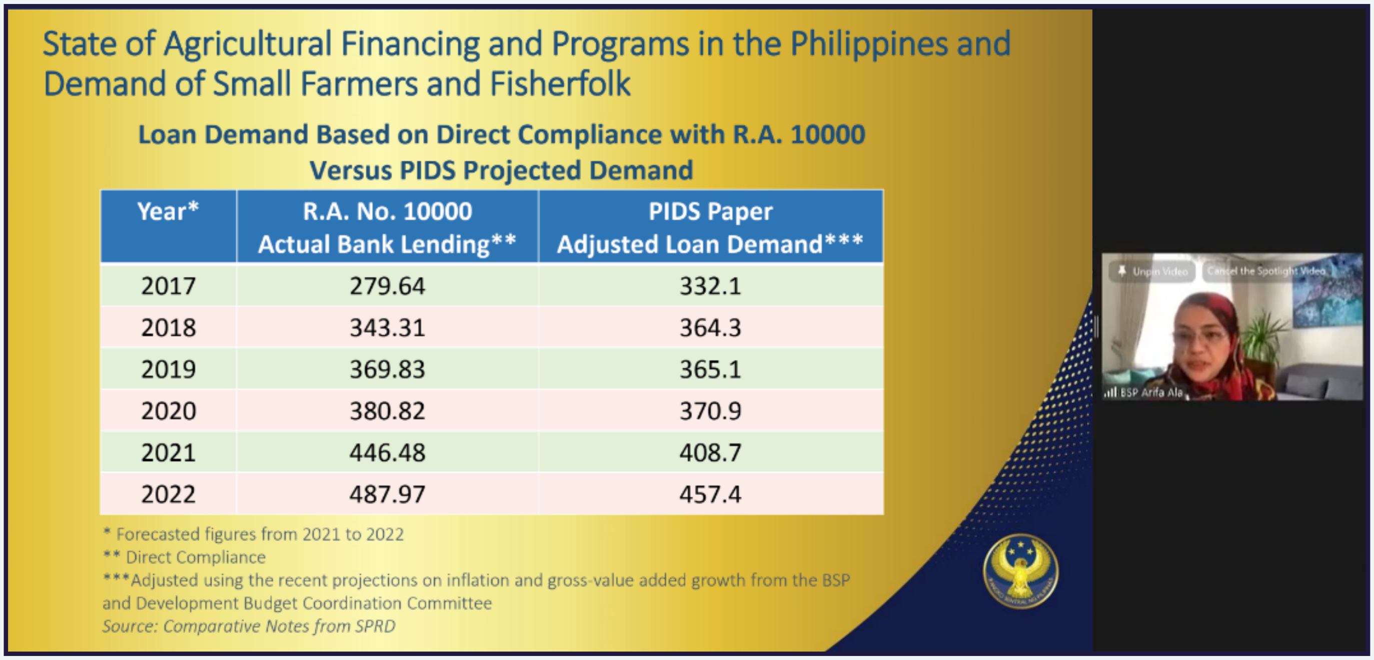
In the medium-run, the government can focus on (a) the improvement in connectivity and (b) the establishment of physical infrastructures such as post-harvest facilities and processing hubs. In the long-run, the facilitator-driven AVCF has to evolve into an integrated AVCF with SFF associations, and even financial institutions, being closely linked to facilitate the various activities of the value chain. The SFF and their associations should be able to strengthen the linkages set out by the facilitator-driven AVCF and to come up with innovative AVCF strategies to forge new linkages. Information systems should be in place to enable the linking of financing instruments with financial institutions and to facilitate seamless transactions between and among the chains.

Given that the value chain in the country is still traditional and it takes time to set-up the requisites of successful AVCFs (e.g. capacitating the SFF, associations, and small cooperatives; conduits to link the SFF with input and output markets; forging linkages with institutional buyers), the buyer-driven AVCF can be explored as a second-best alternative in the long-run. This AVCF is a scaled down version of the integrated AVCF in terms of markets although systems that facilitate the flow of information and the interlinking of financial instruments with financial institutions remain essential.

4. Comments and Recommendations from Discussants

a. Mr. Abundio D. Quililan, Jr., President, New Rural Bank of San Leonardo
b) Atty. Arifa A. Ala, Managing Director, BSP Financial Supervision Sub-Sector





State of Agricultural Financing and Programs in the Philippines and Demand of Small Farmers and Fisherfolk

Loan Demand Based on Direct Compliance with R.A. 10000 Versus PIDS Projected Demand

Year*	R.A. No. 10000 Actual Bank Lending**	PIDS Paper Adjusted Loan Demand***
2017	279.64	332.1
2018	343.31	364.3
2019	369.83	365.1
2020	380.82	370.9
2021	446.48	408.7
2022	487.97	457.4

* Forecasted figures from 2021 to 2022
** Direct Compliance
***Adjusted using the recent projections on inflation and gross-value added growth from the BSP and Development Budget Coordination Committee
Source: Comparative Notes from SPRD

On bank lending to agriculture. The fragmented character of farm lands involving multitude of small farmers and their susceptibility to various disruptions and unfair market practices are the underlying reasons behind the state of agriculture credit delivery in the Philippines.

The unbanked municipalities are predominantly small agricultural communities hence unattractive to private banks to invest. Incentives in the form of equity investment and enabling regulatory framework are necessary to lure privately owned banking institutions to set-up offices in these areas.

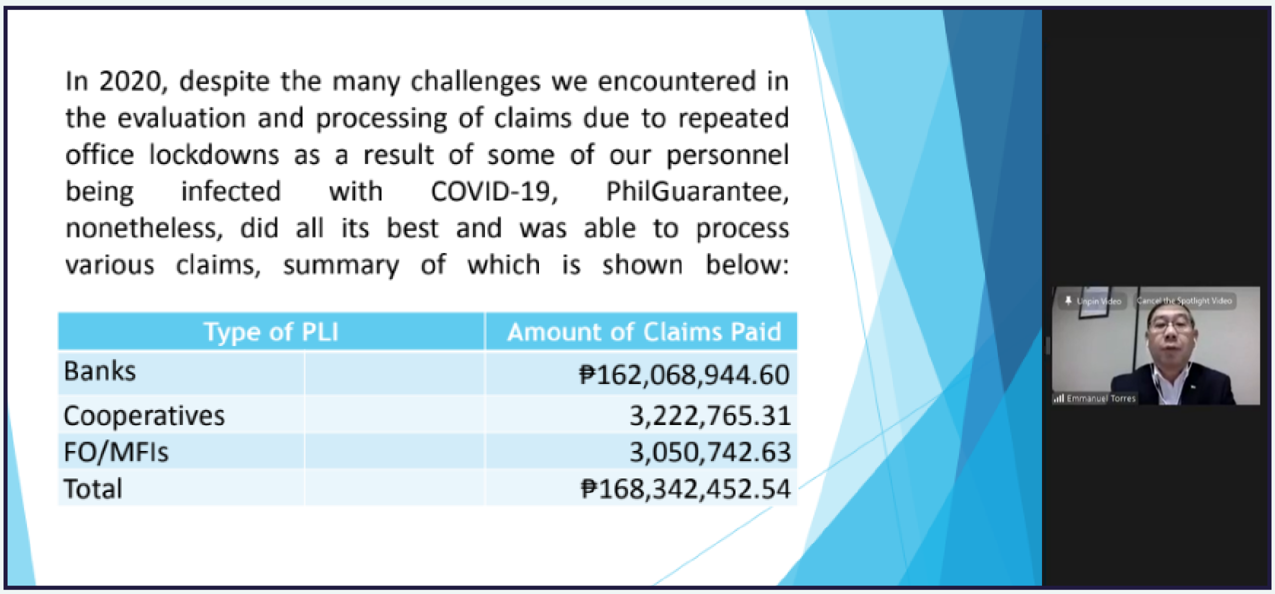
The BSP, together with the DA and DAR, is pushing for the amendment of the Agri-Agra Law to make it more holistic to enable higher investments by banks to the agriculture and agrarian reform sectors. There is also a need to advocate for the passage of the Agri-Agra Law amendment and other legislative proposals that could improve SFF's credit access such as the proposed bill on warehouse receipts.

Other recommendations to encourage banks' greater participation inagricultural lending: (i) Capacitate agri-oriented banks by way of soliciting investments from bigger banks and allowing the use of Agri-Agra Law penalties for this purpose; (ii) Introduce inclusive and innovative financing schemes such as the AVCF and capacitate the actors; (iii) Grant agri-oriented banks automatic eligibility to participate under the financing programs of government agencies for the agricultural sector particularly those providing services towards risk-mitigation such as PhilGuarantee and the Philippine Crop Insurance Corporation (PCIC); and (iv) Grant of automatic eligibility for regulatory relief from BSP and other regulatory agencies, say for a period of 1-year from the time of occurrence of a natural or human-induced calamity.

On government-supported lending programs. Government credit programs intended for SFF are often seen by loan beneficiaries as subsidies instead of financial obligation particularly if funding is meant as relief from calamities or disasters where loan recovery performance is usually low. It is best that these types of assistance are packaged as amelioration rather than loan extension to present a more accurate performance of credit programs.

Other recommendations to improve performance of government credit programs: (i) Provide subsidy for capability-building activities on agricultural lending such as exchange of best-practice experiences, study tour, technology transfer; (ii) Provide subsidy to cover intervention and operational costs of private sector partner lending conduits; (iii) Strengthen and replicate successful pilot AVCF models; (iv) Establish farm infrastructures particularly post-harvest facilities; and (v) Employ and/or intensify digitalization of processes.

C. AGRICULTURAL CREDIT GUARANTEE



1. The AGFP Agricultural Credit Guarantee Program, by Atty. Emmanuel R. Torres, Senior Vice President, Philippine Guarantee Corporation (PhilGuarantee)

The Agricultural Guarantee Fund Pool (AGFP) credit guarantee is a mitigation instrument intended to reduce the impact of specified risk on lenders. The PhilGuarantee assures partner lending institutions (PLIs) that a portion of the loan (up to 85%) will be repaid on maturity since it was designed to improve small farmers and fishers' access to credit and their integration into the formal financial markets. The guarantee is not a promise or an obligation to face the repayment risk alone, but a risk-sharing tool that the recipient or beneficiary of the guarantee shares part of the risk. The beneficiary PLI is still required to observe prudent and sound banking practices in the conduct of its lending operations and shall treat the loan as if unguaranteed.

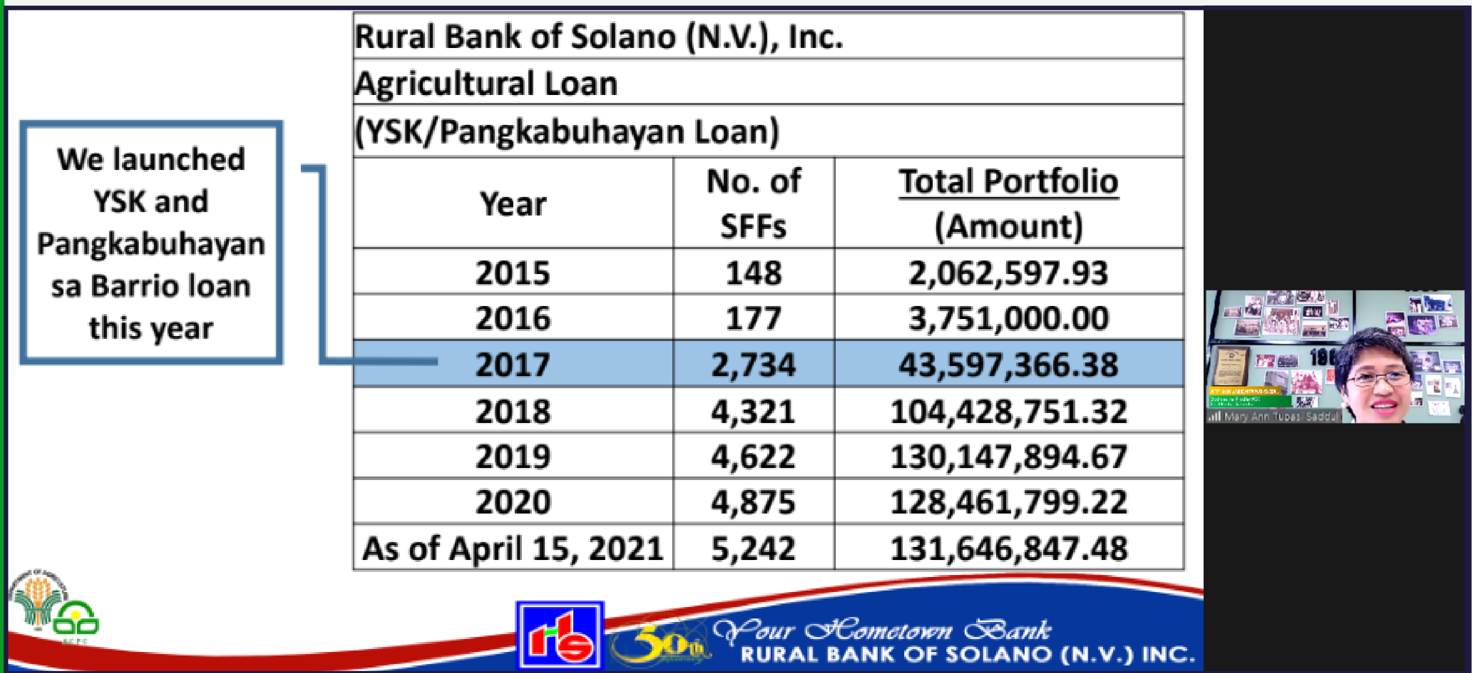
In 2020, AGFP established partnerships with 41 lending institutions with total guarantee line of ₱5.139 billion. Of the total unsecured guaranteed loans in the amount of ₱4.247 billion, 92% came from banks while cooperatives and farmer organizations/other microfinance institutions shared 3% and 5%, respectively. A total of 48,038 SFFs benefited from the partnerships. Despite the many challenges encountered in the evaluation and processing of claims due to repeated office lockdowns as a result of some of our personnel being infected with COVID-19, PhilGuarantee was able to process various claims amounting to P168.3 million.

2. Comments and Recommendations from Discussants

a) Dr. Gilberto M. Llanto, Member, Board of Trustees, Philippine Institute for Development Studies (PIDS)
b) Atty. Mary Ann E.M. Tupasi-Saddul, Chair and President/CEO, Rural Bank of Solano, Inc.

Banks' reluctance to lend to small farmers and fishers (SFF). Banks and other formal lenders are reluctant to provide SFF with credit because of the following reasons: (i) problem of information asymmetry or access to different information; (ii) transactions cost; (iii) enforcement constraints; (iv) adverse selection; and (v) systemic risks. Banks want to be sure that borrowers will be able to repay their loan. They do not know who are creditworthy so that banks ask for collateral, which most small farmers do not have. Borrowers, on the other hand, can engage in strategic default and their reason for default can either be lack of willingness to pay or lack of capacity to pay. Lenders are only willing lend to those with good track record, which most small farmers also lack.

A total of 48,038 SFF benefitted from the AGFP credit guarantee scheme. Without the guarantee, these borrowers who are unbanked and with lacking collateral to offer, will not be able to obtain loans necessary for food production. However, there are still 1.4 million SFF who continue to borrow from informal lenders. Perhaps the guarantee scheme may not be the right intervention to encourage formal lenders to lend to the SFF.



Rural Bank of Solano (N.V.), Inc.		
Agricultural Loan		
(YSK/Pangkabuhayan Loan)		
Year	No. of SFFs	Total Portfolio (Amount)
2015	148	2,062,597.93
2016	177	3,751,000.00
2017	2,734	43,597,366.38
2018	4,321	104,428,751.32
2019	4,622	130,147,894.67
2020	4,875	128,461,799.22
As of April 15, 2021	5,242	131,646,847.48

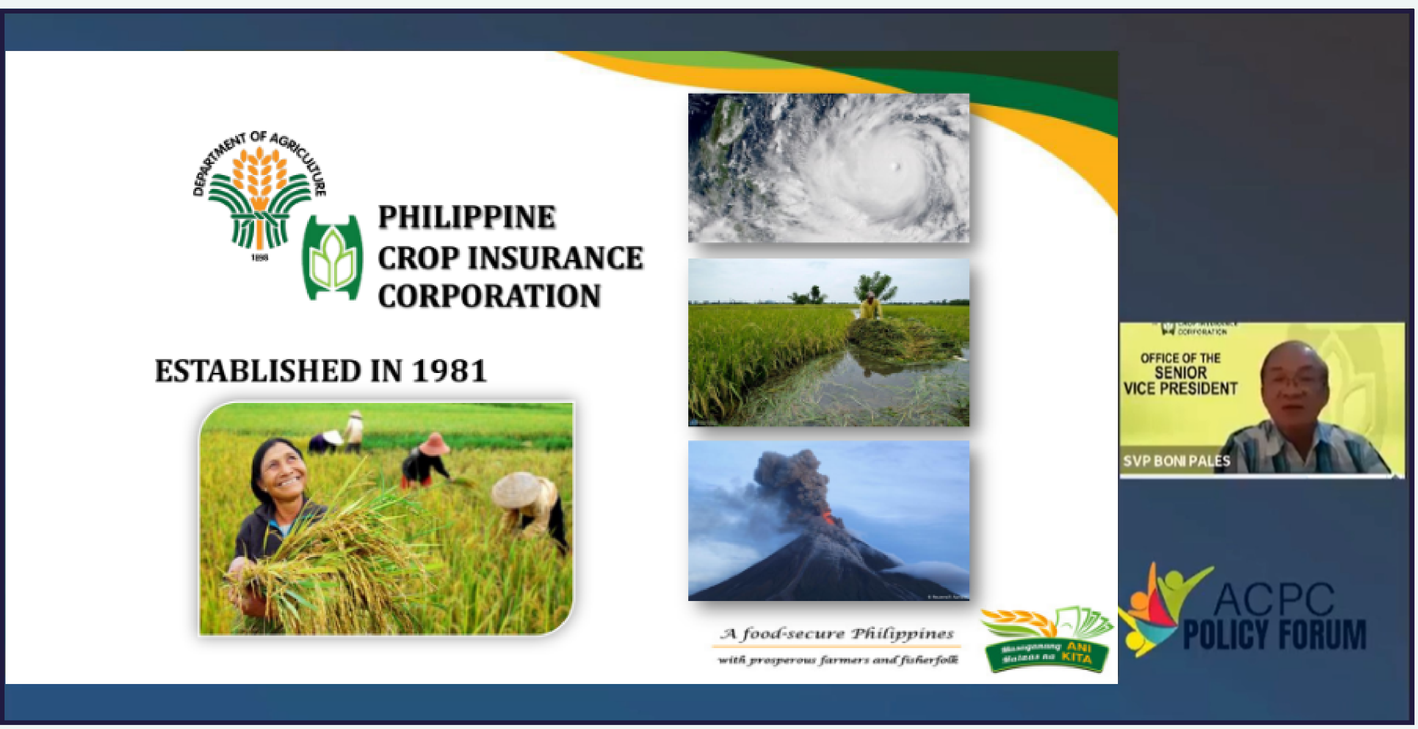
Low participation of banks and other PLIs in the AGFP. There is clearly a need for a reliable credit guarantee system. But, why are there only a few banks or lending institutions (PLIs) that are currently enrolled with AGFP credit guarantee? Here are some answers: (i) Some banks opt not to go into uncollateralized lending; (ii) The screening and accreditation process is limiting or rigid; (iii) Guarantee only covers 85% of the principal while remaining 15% is the LI's capital at risk and since no interest is collected in advance, the income benefit is not even assured; (iv) No matter how well laid out the credit initiation practices are, the risks involved are real and mostly beyond the control of the bank and the farmer (main reasons for loan default: low yield, low price at market, pests, calamities-typhoons, drought, floods, and sickness or death in the family); (v) Even if the PLI's portfolio exposure is only at 15% i.e., the unguaranteed portion, loan loss provisioning requirement is high and restrictive since it is unsecured; (vi) There is a common notion that claims take too long to be settled or claims can be denied even on administrative matters; and (vii) There still lingers, the ghosts of Masagana 99 and lending institutions are afraid that the guarantee program will be dropped altogether leaving banks hanging with high portfolio at risk.

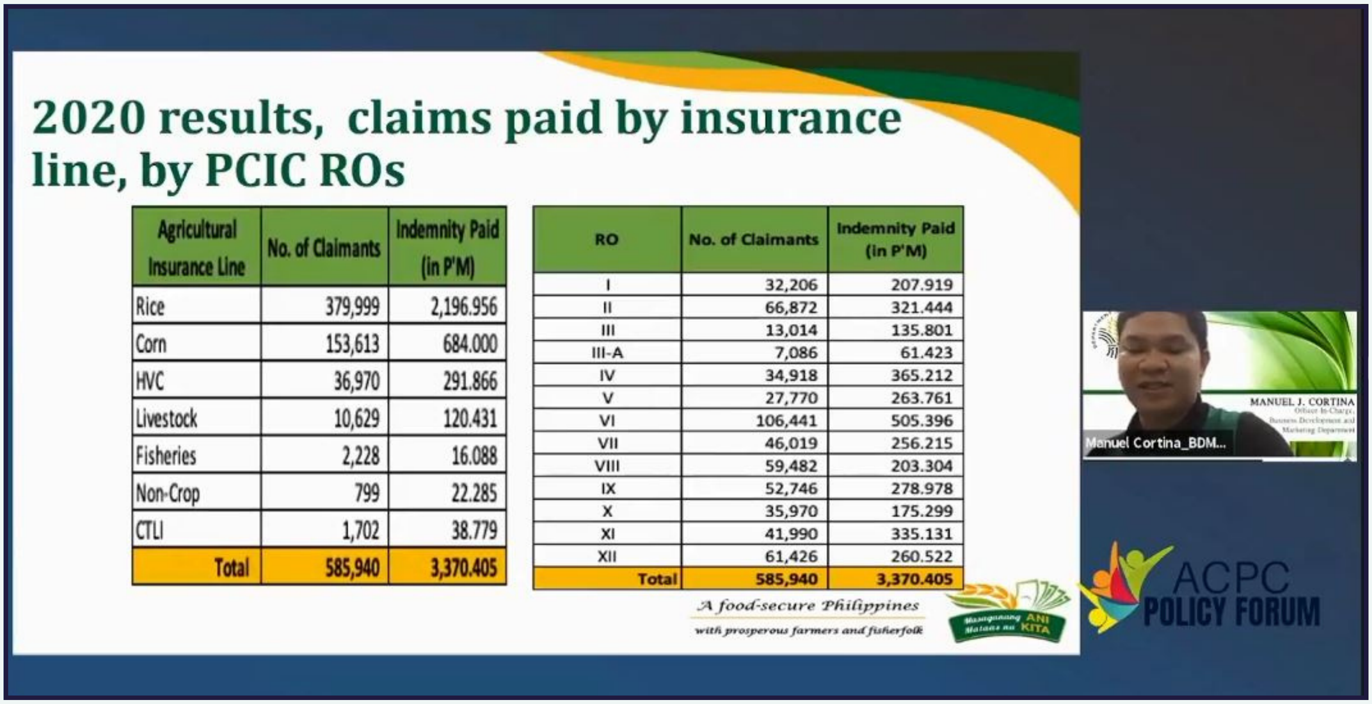
Suggestions to improve AGFP credit guarantee program implementation. It was acknowledged that NGO microfinance institutions, cooperatives and more importantly Rural Banks with over 2500 business units spread across the country, are the most strategic, integral and potential partners of the PhilGuarantee / AGFP in lending to SFF. Hence in order to encourage the participation of these potential PLIs, it is imperative that the operations of the AGFP be improved and suggestions are: (i) Simplify the accreditation and renewal process; (ii) Provide capacity building programs to partners; (iii) Increase the guarantee coverage to 90 -100%; (iv) Streamline processes, issue clear guidelines and ensure partner engagement is based on fair, uniform and clear IRR; (v) Include in the policy making body a representative of the Department of Agriculture (DA), who knows the sector well and whose main agenda is to look out for the interests of these farmers and the whole agriculture sector. (vi) Include, even in an advisory function, the President of the Rural Bankers Association of the Philippines (RBAP) or its representative preferably a PLI who will bring issues and concerns from field and creditors end; (vii) Provide credit information/data and information technology (IT) support to prevent multiple borrowings; (viii) Provide designated Account Officers and limit their areas; (ix) Provide uninterrupted service or ECQ proof the processes; (x) Provide an online portal to speed up enrollment, filing claims and help monitor recoveries.

Conduct of impact evaluation. Credit guarantee may make credit accessible, that is, banks may be induced to lend to target borrowers (SFFs). However, a credit guarantee is far from being silver bullet for the credit constraint problem of SFFs. In the absence of impact evaluation or assessments, we really do not know whether it is an effective instrument to overcome credit constraints for SFFs. What we have is anecdotal evidence of bank lending to SFFs allegedly because of the government's credit guarantee scheme. A proper evaluation would show how the AGFP credit guarantee scheme has influenced or determined financial institutions' lending practices for SFFs, which led to farmers' access to and use of credit, and farm investments, productivity and income.

D. AGRICULTURAL INSURANCE

1. **Agricultural Insurance Programs,** by Mr. Bonifacio V. Pales, Senior Vice President, Philippine Crop Insurance Corporation (PCIC) and Mr. Manuel Cortina, OIC, Business Development and Marketing Department, PCIC





2020 results, claims paid by insurance line, by PCIC ROs

Agricultural Insurance Line	No. of Claimants	Indemnity Paid (in P'M)
Rice	379,999	2,196.956
Corn	153,613	684.000
HVC	36,970	291.866
Livestock	10,629	120.431
Fisheries	2,228	16.088
Non-Crop	799	22.285
CTLI	1,702	38.779
Total	585,940	3,370.405

RO	No. of Claimants	Indemnity Paid (in P'M)
I	32,206	207.919
II	66,872	321.444
III	13,014	135.801
III-A	7,086	61.423
IV	34,918	365.212
V	27,770	263.761
VI	106,441	505.396
VII	46,019	256.215
VIII	59,482	203.304
IX	52,746	278.978
X	35,970	175.299
XI	41,990	335.131
XII	61,426	260.522
Total	585,940	3,370.405

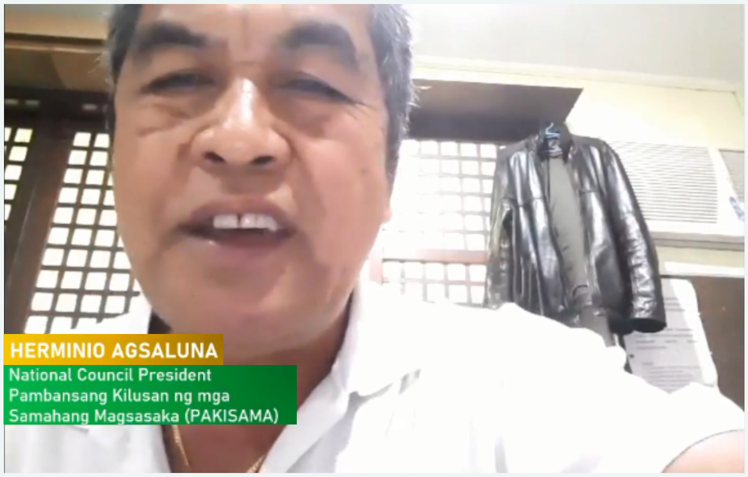
Agricultural insurance has the following benefits: (a) protection of farm investments; (b) substitute collateral for loans of farmers and fisherfolk; (c) encourages greater investments and production from farmers and fisherfolk; and (d) effective financial adaptation measure against calamities. PCIC's desired outcome of its insurance programs is increase in financial risk protection for agricultural producers.

PCIC has seven (7) insurance products, namely: Rice, Corn, Livestock, Fisheries, High-Value Crops, Non-Crop, and Credit & Life Term. In 2020, PCIC programs benefitted about 3 million farmers and fishers with insurance premium subsidy amounting to ₱4.8 billion. Almost ₱3.4 billion were paid for insurance claims to 585,940 farmers and fisherfolk claimants nationwide to cover crops and inputs damaged by calamities, pest and diseases.

For the next five years, from 2021-2025, PCIC proposes an annual increase of ₱1 billion budget for government premium subsidy to achieve a 7% increase in the number of insured per annum and reach 60% of the 10.9 million farmers and fisherfolk listed in the RSBSA by 2025. To reach these goals, PCIC plans to employ four key strategies. First, expanding insurance cover among farmers and fisherfolk by utilizing funds generated by local government units (LGUs), strengthen insurance support to DA-ACPC programs and organized farm clusters. Second, digitalization of processes including the crafting of online platforms for insurance registration, filing and payment of claims. Third, strengthening insurance partnerships with cooperatives, farmer associations, rural banks, other civil society organizations, and LGUs. Fourth and last, conduct intensified insurance education and advocacy.

2. Comments and Recommendations from Discussants

a) Dr. Ma. Piedad Geron, Microfinance Policy Specialist (Independent Consultant)
b) Mr. Herminio Agsaluna, National Council President, Pambansang Kilusan ng mga Samahang Magsasaka(PAKISAMA)



The issues and challenges facing the implementation of agri-insurance programs are: (a) low insurance penetration rate largely attributed to cumbersome enrolment and underwriting system; (b) lack of sufficient investment fund over PCIC operation; and (c) lack of appreciation and awareness in agricultural insurance, which is perceived by most farmers to be an additional expense.

To counter the said challenges: (a) development of new technology platforms to enable insurers to more accurately determine risks; (b) development of more recent products like index-based insurance; (c) provision of capacity-building and training on underwriting and claims assessment for private insurance companies, and their adoption of the insurance products of PCIC; (d) provision of sandbox regulation for agriculture insurance and its pilot testing, to allow non-life insurance companies come up their agricultural insurance products; and (e) strengthen synergies among government, private sector and development partners.

DEPARTMENT OF AGRICULTURE

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