



# AGRICULTURAL CREDIT DEVELOPMENT

*under the Framework for*

# Modernizing & Industrializing Philippine Agriculture



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Paper presented during the Agricultural Credit Policy Council held on 28 April 2016  
at Novotel, Araneta Center, Cubao, Quezon City

# Outline

- Background Information
- History of Agricultural Credit Support System
- Present Scenario
- Problems of the Agricultural Credit Support System
- Factors to improve Agricultural Credit Support System
- Comparison between Informal & Formal Financial Sector
- Credit Surety Fund
- Framework for Modernizing and Industrializing Philippine Agriculture
- Ten Point Agenda of the Framework for Modernizing & Industrializing Philippine Agriculture
- Concluding Remarks



# Background Information

- ❖ **Finance** is a key ingredient for **promoting inclusive growth** and **eradicating poverty**
- ❖ Main obstacles of **450 M smallholder farms** worldwide; **4.8M smallholders** in **Philippines** (FAO, 2014)
  - not productive due to lack of access to resources like **credit**, poorly linked to markets, limited power to negotiate due to information asymmetries, and dispersed and non-aggregated
- ❖ **Credit** empowers smallholders
  - lack financial literacy, cost of credit is high, without credit smallholders are confined to sub-optimal inputs & methods
- ❖ Need to understand the **microfinance landscape**: **access**, **usage**, **quality**, and **welfare**



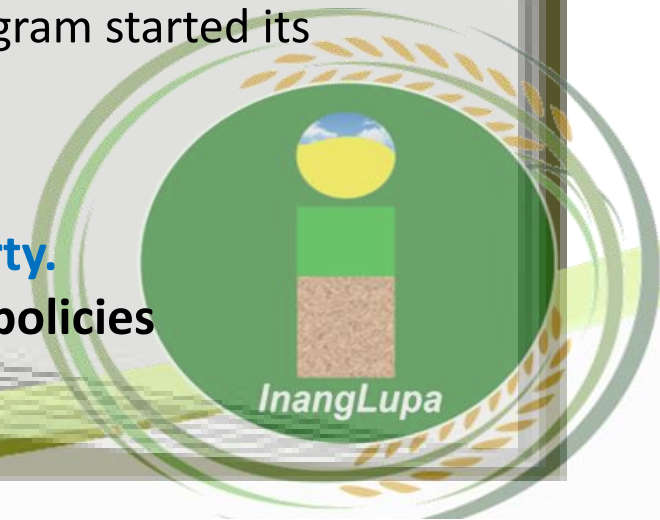
# History of **Agricultural Credit Support System**

**Agriculture and Fisheries Modernization Act (AFMA) of 1997** (Chapter 3) rationalizes the creation of credit delivery system through Republic Act 8435.

**Section 21** stipulates that **Directed Credit Programs (DCPs) be phased-out** and management of loans be transferred to cooperative banks, rural banks, government financial institutions (GFIs) and viable non-government organizations (NGOs) for the purpose of closing all credit emanating from various sources into one program.

**Section 22** states the creation of the **Agro-Industry Modernization Credit and Financing Program (AMCFP)** for agriculture, fisheries and agrarian reform credit and financing system for the use and benefit of farmers and fisherfolks as well as agri-based industries engaged in other activities within the agricultural value chain. The said program started its operation in 2003.

**DCPs largely failed in terms of alleviating poverty. Paradigm shift from directed credit and subsidized policies to market-based orientation.**



## Fund Purpose

AMCFP funds are used to support PRIORITY (this means selective!) programs of DA

## Low Funding of AMCFP

- Remaining funds of terminated DCPs and fresh funds are allotted to AMCFP with total allocation of Php 12.2 B for 6 years
- An additional budget of only Php 3 B fund allocation from the present administration

## Poor Collection

For the last 10 years, ACPC faced with poor collection (only Php1.5 B out of Php 6 B or 25% of past due loans from DCPs)

# Present Scenario

## Revolving Fund

Funding is solely out of the remaining loanable funds and past due loans from terminated DCPs collected by the Agricultural Credit Policy Council (ACPC)

## Access to Finance (Financial Literacy)

Rural areas have limited telecommunication services and availability of bank services including rural finance education for people that would develop culture of savings/finance

## Partnership

ACPC partners with GFIs and GOCCs in implementing the AMCFP



# Problems of the Agricultural Credit Support System

- ❖ **Low funding** relative to credit demand
- ❖ **Poor collection** (only 25%) by ACPC since its operation in 2003
- ❖ **High interest rate** and **processing fees** by GFIs, GOCCs, and rural banks
- ❖ Mobilization of **credit funds** significantly **slowed down** due to policies and procedures of GFIs and GOCCs (every GFIs, GOCCs, Cooperatives, Rural banks have their own policies and procedures). This resulted to low use of credit funds since 2013 by 32.5% (e.g. only Php 325 M released vis-a-vis Php 1 B credit funding)
- ❖ Proliferation of **informal lenders** with very **high interest rates**.



# Problems of the Agricultural Credit Support System

- ❖ Credit window is only available to priority programs **dictated by the department** (e.g. rice, corn and selected HVCC)
- ❖ **Selective clients** by GFIs and GOCCs (marginalized and small holder farmers are not directly benefitted)
- ❖ PCIC mostly **limits its operation** in rice, corn and selected HVCC though mandated to provide insurance protection to the country's agricultural producers, particularly the subsistence farmers against loss of crops and/or non-crop agricultural assets on account of natural calamities (typhoons, floods, drought, earthquake, volcanic eruption), plant and diseases, and other perils

Out of 4.8 M farmers,  
**only 1.12 M farmers**  
**are ensured**  
**(23.3%)** in 2015 by  
Philippine Crop Insurance  
Corporation (PCIC)



# Factors to improve Agricultural Credit Support System



❖ **Increase funding** of AMCFP to cater demands

❖ DA-ACPC should **accredit its own NGOs** instead of the DSWD

❖ **Policy and guidelines** of AMCFP and the credit chapter of AFMA law be amended for desired reforms implemented (inclusion of complementary market support like health plus incentives for those engaged in agriculture/production of commodities)

❖ Government should infuse **additional capital funds** and **premium subsidy** into PCIC for the provision of free insurance to marginalized and smallholder farmers.

❖ **Credit window** should be available to all agriculture sector activities





# Factors to improve Agricultural Credit Support System

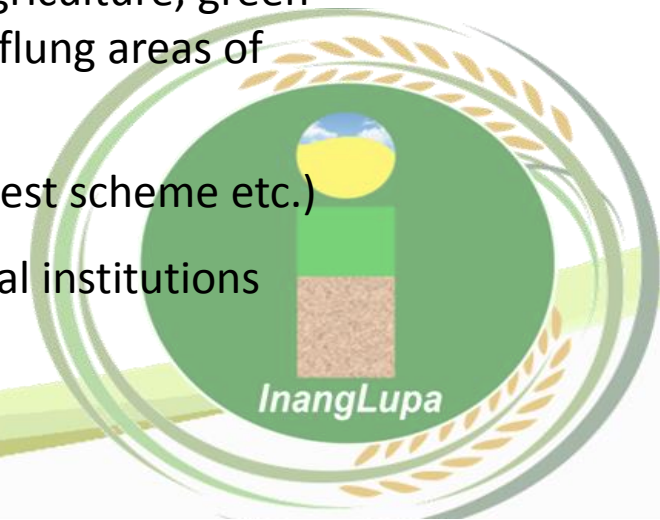
- Rationalize and strengthen ACPCs structure and organization (e.g. creation of zonal offices for ACPC in order to strengthen manpower requirement for effective credit delivery and capacity building)

**609** of the **1,634**  
**municipalities**  
in the country do not  
have banking office

**more than 7 M people**  
have no access to banks  
or any other financial  
products & services

substantial resources for  
capacity building and  
institutional development  
= **economies of scale**

- Institutionalize the Agricultural Guarantee Fund Pool (AGFP)
- Strengthen climate change responsive financing vis-à-vis climate smart agriculture, green finance and to some extent renewable energy financing especially in far flung areas of the country
- Develop innovative financing mechanisms (e.g. setting of graduated interest scheme etc.)
- ACPC should have the option of directly engaging with other rural financial institutions and the like



## INFORMAL

- 1 Procedures are usually simple and straightforward
- 2 Transaction costs are low.
- 3 Because they emanate from local environment, repayment difficulties are dealt with in a pragmatic manner.
- 4 Information is widely diffused. The regular meetings of informal savings and credit associations serve as a forum for dissemination of information.
- 5 Usually does not keep a written record on the borrowing and/or saving activities of its clientele. When it does, the procedures are relatively simple.

## FORMAL

- 1 Complex administrative procedures
- 2 Transaction costs are high.
- 3 Not aware with the environment in which they operate..
- 4 Does not have a good network for dissemination of information; out of touch with the rural masses and make little to seek ways of reaching them.
- 5 Keeps written records on the activities of clients, although the information recorded is sometimes irrelevant.



Approved by the  
Monetary Board  
**July 2, 2008**

**45 CSFs**  
nationwide as of  
December 2015

Turned into law  
**RA 10744**  
February 6, 2016

## Credit Surety Fund (CSF)

**98.2%**  
payment rate

Program to be  
regulated and supervised by  
**Cooperative Development Authority**  
in cooperation with  
**Bangko Sentral**

**Php 3B+**  
loans provided  
with Surety Cover

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# CSF Program

- Credit enhancement scheme developed by the Bangko Sentral ng Pilipinas, which aims to increase the credit worthiness of MSMEs that are experiencing difficulty in obtaining loans from banks due to lack of acceptable collaterals, credit knowledge and credit track records.

CSF program is another case that brings to light two very important insights:

1. 'Our failure to provide credit to farmers/fisherfolks is the single most critical factor that has made our agriculture sector fall behind the rest of the economy, and the rest of the ASEAN region (Habito, 2014).'
2. The importance of a well-designed intervention with elements of wider dissemination for a well-informed society.



Vision

**A Modern and Industrialized  
Philippine Agriculture**

Strategy: Inclusive Philippine Agri-Modernization and Industrialization (IPAMI)

**4 Pillars**

- Inclusive
- Science-based
- Resilience
- Market-oriented

**4 Sustainable  
Development  
Goals**

- Security on:
- Food
- Economic
- Nutritional
- Environmental

**4 Major  
Objectives**

- Productivity
- Profitability
- Competitiveness
- Sustainability

Enabling Mechanisms

Plans and Programs

Legislative Agenda



# 10 Action Points for a Competitive & Market-Oriented Agriculture

Irrigation



1

Infrastructure &  
other logistics



2

Credit & other risk  
management  
tools



3

Mechanization



4

Market &  
agribusiness



5

Sustainable land  
management



6

Research and  
development



7

Adaptation to  
climate change



8

Empowerment &  
institutional capacity  
development



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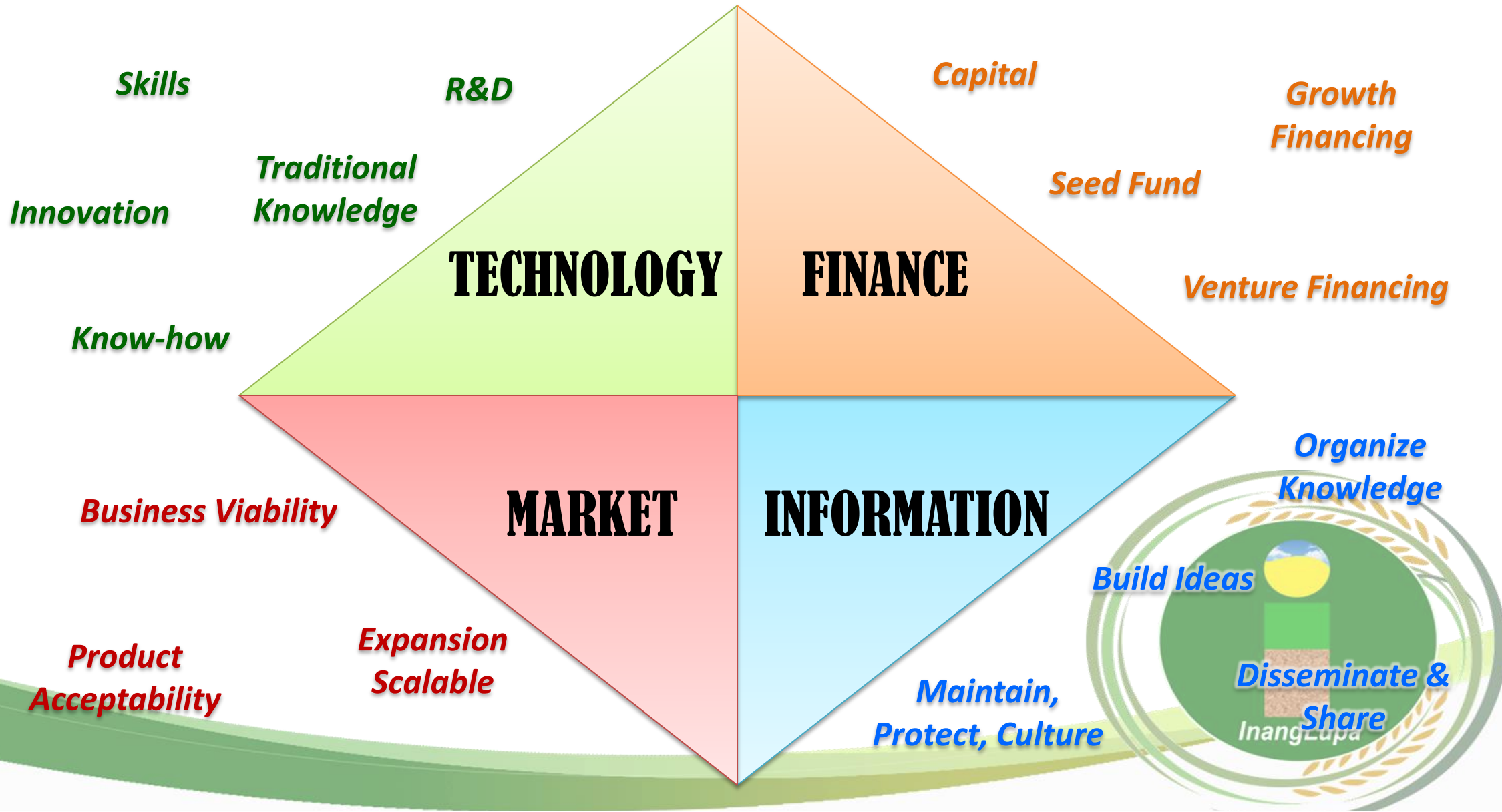
Reformation of  
the Bureaucracy



10



# Mainstream Smallholder Farmers to Agri-Enterprise Development



# Concluding Remarks

- Empirical evidence indicates that microfinance (including credit) services thrive in areas with relatively better infrastructure
  - Financial inclusion – broadening access to financial services and building inclusive financial systems
  - Improve infrastructure in far-flung areas to encourage more financial institutions to reach the poor in agriculture-based communities to minimize high risks and transaction costs;
  - Role of Land Bank of the Philippines (LBP)





# Financial Inclusion: *The Life Cycle Approach*

Internationalization

Tech Commercialization

Tech Adoption

Tech Generation

Growth Financing

Ideation

Capital

Seed fund

Grants



# Why not a **dedicated bank** for agriculture, agrarian reform and rural industries?

- The rural sector with farming as the backbone of the country's economy, a dedicated institution can provide the requisite support.
- It is at this rural level, that the finances are not managed and a structured maintenance of credit flow is absent.
- Hence, the Land Bank of the Philippines (LBP) can be reinvented to provide the necessary aid in the process of sustainable rural development by facilitating credit flow in support of small-scale and village industries.



# Concluding Remarks

- Take full advantage of BSP's responsiveness to technological advances (mobile banking and e-money) because these offer opportunities to deepen and expand outreach to the poor;
- Enhancement on the utilization and application of ICT-based financial platforms

**M-PESA** (*M for mobile and pesa which is Swahili for money*)



- A mobile phone-based money transfer, financing and microfinancing service, launched in 2007 by Vodafone for Safaricom and Vodacom, the largest mobile network operators in Kenya and Tanzania.
- It has expanded to Afghanistan, South Africa, India and in 2014 to Romania and in 2015 to Albania.
- M-Pesa allows users to deposit, withdraw, transfer money and pay for goods and services easily with mobile device.

In the Philippines, application of cellular phone technology to financial transactions lowered cost of transfers and payments



**Smart Padala:** sending and receiving money plus ATM and Debit card functions

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# Concluding Remarks

- Attention be given to underserved areas such as the Autonomous Region of Muslim Mindanao (ARMM), the Cordillera Autonomous Region (CAR), Eastern Visayas, and the Zamboanga Peninsula
- Continue complementary capacity building program for the promotion of financial literacy and consumer protection for better access to and use of financial services by the poor and for finance service providers to be attuned to regional and global trends of rural finance



# ***Thank you!***

The developing world is full of entrepreneurs and visionaries, who with access to education, equity and credit would play a key role in developing the economic situations in their countries.

*- Muhammad Yunus*



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