



FINANCIAL EXECUTIVES INSTITUTE OF THE PHILIPPINES (FINEX)

FINEX POSITION PAPER ON SENATE BILL 1924

The Financial Executives Institute of the Philippines (“FINEX”) supports the initiative of the Senate in introducing amendments to R.A. 10000 of 2010, which is meant to shore up the agriculture and fisheries industries. We likewise recognize the significant role of these sectors in the country’s socio-economic development, particularly on the food supply and livelihood for our countrymen.

However, in the application of this law and similarly, in the original AGRI-AGRA Law of 1975, the evidence shows major shortcomings that need to be addressed:

- a. Since the original law was enacted in 1975, the banking industry has not been able to meet the minimum amount of loans required to be extended to the agricultural and agrarian reform sectors. Every year, the industry has fallen short of the 25% mandatory compliance.
- b. The level of risk for this type of lending is the overarching reason for the shortfall in compliance, aggravated by the lack of creditworthy accounts which the banks would understandably hesitate to take on.
- c. In many cases, the banks have simply opted for the secondary mode of compliance, which is the acquisition of government securities. Failing that given the limited amount of securities available, banks have had to pay penalties for non-compliance. The shortfall in compliance in 2019 was about 809 Billion Pesos. The penalties paid by the banks was 4.05 Billion. The estimated shortfall for 2020 is 964 Billion the penalties of which can amount to 4.8 Billion.

In the end, the non-compliance with the law causes three sectors to suffer: the agriculture and agrarian reform sectors have not fully benefited from the intent of the law; and the banking industry has to absorb higher costs arising from the penalties which add to banks’ intermediation cost and may be passed on in some way to their customers.

FINEX believes that while the law, even as amended in 2010, has serious deficiencies, it could play a relevant and more meaningful role in the development of the agriculture and fisheries industries. We humbly recommend the following concepts and provisos in the formulation of the final draft of Senate Bill 1924:

1. The lack of creditworthiness is due to several factors beyond the borrower’s personal character or capacity. The farmers and fisherfolk are part of an

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ecosystem, and their activities constantly interact and are affected by the other parties or components interdependently linked in this ecosystem.

As an example, rice production has direct and indirect linkages to other economic activities:

- Backward linkages such as: Fertilizer/Pesticide manufacturing, distribution and retail; Research and Development on rice breeds.
- Forward linkages such as: Threshers and drying equipment; Warehousing and warehouse financing; Rice milling; Distribution; Farm to market roads.
- Side stream linkages including Physical Infrastructure such as: Irrigation; Power and Water Supply; Transportation; Highways to facilitate access to end markets; and Public Markets.
- And Social Infrastructure linkages such as: housing, schools, training centers and hospitals which serve the well-being and develop the human capital of the agri-agra community.

We believe that a more holistic approach where parallel developments in these related sectors and activities are also pushed, will be a better way to achieve optimal growth in agricultural, particularly rice, production.

This approach, which is used in other developing countries such as Vietnam, Thailand and Cambodia, will provide banks a more extensive reach in terms of lending to other industries that have creditworthy standing and help develop the wider rural community.

2. The Land Bank and the DBP have wide latitudes in expanding their participation in many agricultural projects. These banks possess the appropriate infrastructure in widening the support to the agricultural industry. For this, we recommend that the Land Bank and the DBP, as government financial institutions, take the lead and in some way be re-purposed for a big concerted push for our agri-agra sector.

We appreciate the inclusion of two new initiatives, the creation of the **Agribusiness Management Capacity and Institution-Building Fund (Special Fund)** which is meant to provide capital for the agricultural and fishery related activities and the **Agricultural and Fisheries Finance and Capacity-Building Council (AFFCC)**, which is intended to provide oversight and management of the **Special Fund**. These two should provide the needed direction and strategy for moving the agriculture and fisheries industries in a more deliberate and purposeful form. We trust that in the

implementation of the law and subsequently in the exercise of authority in these institutions, that the key principles of corporate finance and corporate governance are followed with constancy and determination, given that the private sector is intended to be a shareholder with an active involvement. The banks must also be supported in their pursuit of investment-worthy opportunities.

For now, we support any interim measures to get the funds immediately flowing to the agri-agra sector. Recently, the BSP issued amendments to the rules and regulations on the mandatory credit allocation which expands types of loans considered as Agri-Agra compliance. Amendments to the original law, and other related laws and executive orders have in fact been adopted to facilitate compliance, but a fresh, new, orchestrated approach by government and the private sector is demanded by the urgency of ensuring food security of which agriculture and fisheries are our anchors. It is hoped that the amendments will also encourage banks to engage "impact" investors who will provide risk (not debt) capital to the target sectors.

FINEX firmly believes that the agriculture and fisheries industries are two lynchpins vital to the economic development of the country and must be supported. Such support however, must come in a more holistic and comprehensive way.

FINEX also offers its support to the national government in assisting the stakeholders in crafting the way forward with these two industries, through the use of the agricultural linkages concept and the repurposing of the missions of the Land Bank and the DBP, and through the private sector's, especially the banks' involvement in the **Special Fund** and in the **AFFCC**.


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