Rural Growth and Development Revisited

POST-REFORM SITUATION OF THE RURAL FINANCIAL MARKETS, POLICY GAPS AND RECOMMENDATIONS

By

Gilbert Llanto

Post-Reform Situation of the Rural Financial Markets, Policy Gaps and Recommendations[1]

1. This paper discusses recent rural finance reforms, the status of implementation of those reforms, some key issues and gaps in the rural financial markets, and provides recommendations for government action. At the onset, before indicating below some specific recommendations to address key issues in rural finance, it is important to state that a weak rural economy will necessarily discourage bank lending[2]. In crafting financing strategies, it is important to bear in mind that the problem of inadequate rural financing is nested within the larger problem of weak rural economies[3]. It follows that private banks would not lend to the rural sector if they find that rural projects and activities are unviable.

2. While addressing the key issues in rural financial markets, the government should not forget the larger challenge of providing strategic support for a viable rural economy in the terms of right economic policies, basic infrastructure and an environment conducive to private investments. Banks will continue to provide token financing to the rural economy unless it becomes profitable for them to do so.

I. Status of Compliance of Government (DA): Agricultural Modernization Credit Financing Program

3. The government and Congress enacted drastic reforms in the rural financial markets in the late nineties after recognizing the failure of subsidized, directed credit programs (DCPs) to provide small farmers and other small-scale borrowers access to formal credit[4]. The Agriculture and Fisheries Modernization Act (AFMA) mandated the government to terminate the subsidized DCPs and created the Agricultural Modernization Credit Financing Program (AMCFP) as a substitute for terminated subsidized credit programs. It asked the government to implement the AMCFP for the modernization of agriculture.

4. The Department of Agriculture (DA) tried to terminate all the subsidized agricultural credit programs and to consolidate the remaining loan funds into the Agricultural Modernization Credit Financing Program (AMCFP). The National Credit Council of the Department of Finance and the DA issued a policy asking government financial institutions (GFIs) to implement the AMCFP as a wholesale lending program to address the credit financing needs of the agriculture and rural sector. Private financial institutions shall take wholesale loans from the Land Bank (as major steward of the AMCFP) which shall be then on-lent to end-borrowers. Interest rates shall be market-determined.

---

[1]Prepared by Gilberto Llanto, consultant. This paper draws from Gilberto M. Llanto (2004a), "Rural Finance and Developments in Philippine Rural Financial Markets: Issues and Policy Research Challenges" a study prepared for the Agricultural Credit Policy Council, January 31, 2004 and Gilberto M. Llanto (2004b)"Microfinance and Rural Finance: Options in the Philippines", draft report submitted to Liza Valenzuela, World Bank.

[2] For the benefit of politicians and government bureaucrats, there is a need to stress the obvious.

[3] The other chapters of this Study identify the measures needed to invigorate the Philippine rural economy.

[4] **Annex A** provides a brief explanation of the policy reform thrusts in the microfinance and rural finance markets and reports the status of the Agriculture Modernization Credit Financing Program (AMCFP) which the Congress of the Philippines legislated substitute for subsidized (directed) credit programs in the agriculture and rural sector.

5. **Status of compliance and gaps**. As of September 2004, around Pesos 720 million from 12 terminated DCPs had been deposited at the Bureau of the Treasury. The DA has yet to complete the Congressional mandate. The Land Bank and Quedancor also tried to provide more loans to the sector but serious gaps prevent greater synergy between the government financial institutions and private financial institutions in addressing the AFMA mandate.

6. The DA and Land Bank failed to develop the details of the AMCFP: what strategies and specific instruments to be used to finance the modernization of agriculture;[5] how to implement the envisaged partnership between government financial institutions (GFIs) and private financial institutions in addressing the outstanding gaps in the agriculture and rural sector, e.g., loss of the collateral value of agriculture lands, lack of long-term investment credit in the sector, etc; how to address various constraints to formal lending in the sector.

7. Any effort to map out details of the AMCFP should take into account the DA's agriculture development strategy and programs to modernize agriculture and the expected financing requirements of the sector that will emanate from that strategy.

Recommendations:

(a) The DA should direct the DA bureaus and units to terminate the remaining subsidized credit programs and move the funds to government financial institutions (basically, the Land Bank of the Philippines) for on-lending to the agriculture and rural sector.

(b) The DA (Office of the Secretary) should review its agriculture development strategy and its implementation of the Agriculture and Fisheries Modernization Act (AFMA).

(c) NEDA and DBM should commission an independent review of how DA has allocated its budgetary appropriations to meet the AFMA goals and to determine the impact of the budgetary allocation on rural growth and development. The results of the review will be useful inputs to DA's review of its agricultural development strategy and the implementation of AFMA.

(d) Land Bank of the Philippines and the DA should work with the private sector to map out the details of the implementation of AMCFP taking into consideration the DA's agriculture development strategy and programs to modernize agriculture.

II. Key Issues and Specific Recommendations

8. **Private banks' loans to agriculture**. The expectation was that the AMCFP will be a major mechanism for credit financing of the requirements of the agriculture and rural sector. How have private banks responded to the reforms, if at all?

9. The service sector had an 86% average share of total loans granted by all banks in the period 1996-2002. The industry sector had an average share of 11% of all loans for the same period while loans to agriculture, fishery and forestry sector (AFF)[6] averaged at 3 to 4% (Table 1).

[5] The requirements of a modernizing agriculture sector are discussed in the Chapter by Ching de la Pena.
[6] Loans to AFF, as determined by the 1992 Inter-Agency Task Force on Agricultural Credit, cover loans classified by the PSIC system for production purposes under the following economic activities:

Table 1. LOANS GRANTED BY ALL BANKS ACCORDING TO SECTOR (In Billion Pesos)							
	1996	1997	1998	1999	2000	2001*	2002
AFF Sector (a)	n.a.	n.a.	299.04	401.88	335.31	414.28	487.73
Industry Sector (b)	1,385.04	1,063.26	1,034.73	984.51	874.13	n.a.	n.a.
Service Sector (b)	8,610.66	8,661.74	7,452.40	8,677.83	8,275.20	n.a.	n.a.
Total Loans Granted (a)	10,636.25	10,141.48	8,650.83	9,909.13	9,478.18	7,123.32	6,874.93

Source: BSP

(a) Data came from revised reports from ACPC based on BSP data; figures will not add up

(b) Data on PDB, SSLA & SB only until Oct of 2000; Data on SGB only until May 1994

(*) Except AFF sector, data are only from commercial banks

NOTE: Loan figures, except AFF, were based on reported loans granted to sub-sectors according to reports by each type of bank

Source: Bangko Sentral ng Pilipinas and Agricultural Credit Policy Council

10. The share of loans to agriculture, fishery and forestry (AFF) sector to total loans granted has had only modest improvement. It was 3% in 1998, increased to but remained at 4% in 1999 and 2000 and showed an improvement in 2001 and 2002 at 6% and 7%, respectively. It seems that there was no significant increase in the allocation of private bank loans to the agriculture sector even after the rural finance policy reforms relative to other sectors of the economy.

11. There is a wide gap between the loans granted to the non-agriculture sector and those given to AFF. Financing support to AFF coming from formal financial institutions has been relatively small. The real figure can be smaller if the loans mandated by Presidential Decree 917 (Agri-Agra Law) to be directed to agriculture and agrarian reform are discounted from the loan volumes reported by private banks. The Agri –Agra Law allows private banks to buy government securities and other related debt instruments of the government in substitution of actual loans to the agriculture and agrarian reform areas.

12. Commercial banks held a significant share of total agricultural production loans that were granted by all banks (Table 2)[7]. In 2002, private commercial banks' share of total agriculture-production loans granted was 60%. They were the dominant provider of agriculture-production loans. They provided the loans without having to depend on the AMCFP or any government credit program.

13. On the other hand, the share of government banks was only 6% for that same year. Rural banks' share of agriculture-production loans in 2002 was 18%, its highest by far, while thrift bank had 17%. On a 5-year average (1995-2002), rural banks' share was 14% while thrift banks had a 15% share of agriculture-production loans[8].

---

agriculture, fisheries and forestry (excluding hunting). In addition, included also as determined by the Task Force, are selected agri -related loans classified under mining and quarrying, manufacturing, construction, and wholesale and retail trade.

[7] See Annex C.

[8] Rural banks have traditionally looked up to the government and the Land Bank of the Philippines as sources of on-lending funds for smallholder agriculture.

14. **Lack of financing for high value, long-gestating crops.** Food commodities receive approximately half of the total agricultural production loans while export and commercial crops receive about 20% of those loans. Among the food commodities, livestock and poultry gets the biggest share with 30-40% while cereals and the fruit, vegetable and root crops food group receive about 25% each.

15. It is noted that large commercial farms (agri-business, plantation farms producing exportable crops, e.g., pineapple, bananas) have access to loans from commercial banks. Large agri-business firms that operate those commercial farms have entered into contract-growing schemes with farmers to grow those crops. They have also utilized their internal funds to finance commercial operations. On the other hand, those farms that have shifted to livestock and poultry were also able to borrow from private banks. The large demand for chicken and pork in rapidly urbanizing areas has made livestock and poultry business a profitable venture for commercial growers. Private commercial and thrift banks have lent to these borrowers without having to depend on government funds, e.g., AMCFP.

16. Smallholder agriculture devoted to rice and corn production has not been able to get substantial funding from private commercial and thrift banks. The main sources of formal loans are the Land Bank of the Philippines and rural banks[9]. The credit programs of government financial institutions currently supporting agriculture are mainly for primary production of rice and corn. The focus on rice and corn production implies that major government support (infrastructure, research and development, extension, technology and financing) has remained concentrated on those particular crops. However, in reality, a very large number of farmer borrowers (60%) continue to depend on informal lenders for their production financing as reported in a 2002 survey of the Agricultural Credit Policy Council[10].

17. It appears that Philippine agriculture is not production-credit constrained but investment-credit constrained[11]. Smallholder agriculture get financing from a variety of loan sources. Exportable and commercial crops receive financing from private banks but a serious gap remains with other types of high value crops such as long-gestating crops, e.g. rubber, oil palm. Private banks have not provided financing for long-gestating crops. They are more comfortable financing short-term, high value crops, livestock and poultry.

18. In general, there is a dearth of long-term financing in the agriculture and rural sector, e.g., financing for long-term crops such as palm oil, rubber and others. Dy (Chapter __ of this Study) distinguishes between annual and perennial crops. Annual crops such as rice, corn and most vegetables are planted and harvested in one year or less; perennial crops such as tree crops are planted and after the gestation period are harvested every year during its economic life. While access to financing is certainly tough for all agriculture projects, it is tougher for perennial or long gestating crops. According to a Land Bank source, the total lending to

[9] The Land Bank of the Philippines has traditionally provided agricultural production loans to small rice and corn farmers especially agrarian reform beneficiaries.

[10] The informal lenders are composed of the traditional moneylenders, rice traders and input suppliers. The informal lenders are able to provide loans that are timely, without the traditional collateral required by banks and with no requirement for tedious loan documentation.

[11] This was pointed out by Al Nyberg.

agriculture projects is about Php70 billion, of which barely P200 million is for long-gestating crops[12].

19. One reason for the lack of long-term financing is the banks' negative response to the fragmentation of agricultural lands brought about by agrarian reform. Lands have been traditional collateral to bank loans and from the bank's perspective, agrarian reform has a negative impact on the collateral value of those lands. Dy (Chapter ___ of this Study) reports that certain CARP provisions such as: (a) ownership ceiling; (b) transferability of the lands and the holding period; (c) uncertainties created by the slow implementation of agrarian reform and the (d) negative effects on land consolidation and the collateral value of agricultural lands have effectively acted as barriers to private investments in agriculture and the rural areas[13]. The issue of agrarian reform as a barrier to private investments and how it can be dealt with is discussed in another chapter of this report and will not be treated here[14].

20. The negative impact of agrarian reform on the collateral value of agricultural lands does not seem insurmountable when viewed from the perspective of successful commercial farms in Mindanao that grow commercial and export crops, e.g., banana. As earlier noted in this paper, they were able to consolidate extensive lands for cultivation by entering into contract growing schemes with agrarian reform beneficiaries to produce the export crop. The main issue therefore is not so much the 'fragmentation' of agricultural lands as the availability of long-term financing for long-gestating crops[15] and a clear strategy on how private banks can access such long-term finance.

21. While the Land Bank has a policy to finance such long-gestating crops it has not been able to implement it on a large scale. The unavailability of long-term funds in the capital markets to finance this type of crop is a major reason for the lack of financing[16]. Meanwhile that the underdeveloped capital markets are unable to produce long-term financing for long-gestating crops, it will be important for the government to explore the use of ODA for such purpose.

Recommendations:

(a) The Land Bank of the Philippines and the Development Bank of the Philippines should review their respective credit policies and procedures for long-gestating crops, their past experience in financing long-gestating crops, and identify bottlenecks for implementation.

(b) The Land Bank of the Philippines and the World Bank explore ways to use ODA as a source of long-term finance for long-gestating crops.

---

[12] See Annex B for a brief report on Land Bank's recent performance.

[13] The erosion of the collateral value of agricultural lands due to agrarian reform was first analyzed in Estanislao and Llanto (1995).

[14] See the chapter of Rolando Dy on private investments and growth, particularly the discussion of barriers to private investments.

[15] There are proposed bills in Congress seeking to allow banks to warehouse foreclosed agrarian reform lands and dispose of these in the open market. The option of legislation is not discussed in this paper due to unforeseen and unanticipated twists in legislation initiatives that may thwart the original intent of the proposed legislation. In short, the recommendations made in this paper are those that are under the control of the executive branch of government.

[16] The government has been working with the private sector in capital markets development.

(c) The World Bank should provide advice to the DA and Land Bank on how ODA (from the World Bank) can be used to address this gap in the rural financial markets and help these government institutions design a financing program that will involve the participation of private banks in long-term crop financing.

22. **Missing middle in rural financial markets.**[17] The rural finance reforms have also given impetus to the development of microfinance markets[18]. Philippine microfinance institutions (MFIs) have successfully designed effective ways of providing sustainable finance services to poor households and micro-enterprises. Many of these micro-enterprises are urban-based but it is noted that MFIs have also successfully provided loans to rural households with off-farm activities, e.g., raising backyard livestock and poultry. Their successful clients eventually demand bigger loans in view of business expansion and other purposes. Thus, while their credit demands increase, the MFIs are hard pressed to meet those demands.

23. Limitations imposed by the MFIs' small equity and the lack of capacity and technical know how in dealing with bigger loans discourage attempts to provide much bigger loans and other types of financial services, e.g., demand deposits. Thus, microfinance clients who "graduate" from loans provided by the microfinance institution, face a credit gap. The graduates' financing requirements are now too large to be met by the microfinance institutions but too small to be attractive to the bigger banks.

24. Commercial and thrift banks service mostly the large farmers, plantation agriculture, large scale agri-businesses, commercial fishing, marketing and distribution controlled by high income economic agents. They fail to address the demand for loans and other services by growing micro-enterprises and middle-sized enterprises. See Table 3 for an illustration of this situation.

Table 3 Rural Activities and Corresponding Source of Financing

Farm-based activities ⇨ Large farms	Commercial banks
Small farms	LBP, rural banks, traders, input suppliers, informal lenders
Off-farm activities ⇨ Small and medium enterprises	LBP, DBP, private development banks,
Micro-enterprises	PCFC, MFIs, informal lenders
Primary production by small farmers	LBP, rural banks, traders, input suppliers, informal lenders
Plantation agriculture, e.g. pineapple, bananas	Commercial banks
Agro-processing	Commercial banks, LBP, DBP
Agri-business and marketing	Commercial banks, LBP, DBP
Aqua-culture	Commercial banks, LBP, private

[17] The sources are Llanto (2004a, 2004b).
[18] See Annex A for a short explanation of the reforms.

	development banks
Commercial fishing	Commercial banks
Municipal fishing (small-scale fishing)	Rural banks

"PCFC" – People's Credit and Finance Corporation
"LBP"- Land Bank of the Philippines
"DBP"- Development Bank of the Philippines
Source: Table 22 of Llanto (2004b)

25. The situation creates a financing gap which constrains the micro-enterprises' growth. In terms of loan size, MFIs can provide maximum loans up to Pesos 150,000 and rural banks around Pesos 1.5 million in non-microenterprise loans. On the other hand, the average loans released per account by thrift banks (mid-size banks much smaller than commercial banks) would be around Pesos 10 million, although one thrift bank indicated that the smallest loan it can give is around Pesos 1 million.

Recommendations:

(a) The World Bank should provide technical advice on how to address the financing gap and possibly, develop a financing program where private banks can learn new credit delivery technologies and innovative financial instruments to meet the gap.

(b) Other donors can work in tandem with the World Bank in providing the needed technical assistance.

26. Credit cooperatives as potential source of rural financing[19]. Credit cooperatives have also provided loans to rural and agricultural areas. Although many of the large cooperatives are usually urban-based, a few have managed to lend to farmers and other rural-based economic agents. The experience of some credit cooperatives in Mindanao that have participated in a USAID project on the strengthening of credit cooperatives indicates their huge potential to be viable financial intermediaries in the countryside. Some of the successful credit cooperatives in other parts of the country have also acted as conduits of microfinance loans from the People's Credit and Finance Corporation, a government-owned microfinance company.

27. However, an interview with the largest federation of cooperatives in the country revealed that purely agriculture-based credit cooperatives are seldom sustainable. The seasonality of agriculture-based activities makes it difficult for cooperatives which are solely focused on agriculture-based activities to be viable and sustainable in the long run. The interview indicated a common perception that the agriculture sector in the country is extremely disadvantaged relative to other sectors. The government has not provided adequate support and attention to smallholder agriculture.

28. Those rural-based credit cooperative will require loan portfolio diversification across different sectors, covering a diversity of economic activities and members engaged in various income generating activities. They also need to raise resources to address the inadequacy of their capital and to mobilize more deposits. However, there is currently a lack of proper regulation and supervision to protect members' share capital and deposits. Effective regulation

[19] Llanto (2004b) "Microfinance and Rural Finance Options in the Philippines", draft submitted to Liza Valenzuela, World Bank.

and supervision will help generate public confidence in the credit cooperatives as viable financial intermediaries in the countryside.

Recommendation:

(a) The Cooperative Development Authority should develop its capacity for effective regulation and supervision of credit cooperatives.

29. **Diversity of rural activities and loan diversification**. Credit financing has tended to focus on particular crops (rice, corn, vegetables, etc.). However, rural households have both farm and non-farm activities. Data show the decreasing share of incomes from on-farm production to total rural incomes. On the other hand, non-farm activities, e.g., micro-enterprises now contribute an increasing share to total rural incomes. Thus, rural financing should be expanded to serve both on-farm production activities and non-farm, rural enterprises/micro-enterprises.

30. Both government and private banks have yet to view rural households in their totality as "business enterprises" that are engaged in a variety of income-generating activities. With support from the ACPC, the Land Bank of the Philippines is currently experimenting with the provision of loans to rural households that are engaged in both farm and non-farm activities. While it is a radical departure from the traditional approach to credit financing in the agriculture sector, it has the potential of being able to provide appropriate financing to rural economic agents. This approach also can provide the loan diversification that will help financial institutions manage credit risks and other risk in the countryside.

Recommendation:

(a) The Land Bank of the Philippines and the Agricultural Credit Policy Council (ACPC) should review the pilot project on rural household-based financing to get lessons for future financing of rural households' farm and off-farm economic activities and should explore ways to involve private banks in this regard.

(b) The Department of Agriculture as a key member of the Board of Directors of the Land Bank of the Philippines[20] should exercise oversight responsibilities over the review that would yield specific policies and measures to ensure implementation of a comprehensive rural household financing program.

(c)The World Bank can provide technical assistance/advice based on its world-wide experience in this area.

31. **Global agriculture-based supply chain**. The agri-supply chain is the linking of different actors from farm to end-user to achieve a more effective and consumer-oriented flow of products.[21] As the raw produce go through each link of the chain, it undergoes varying degrees of value adding such as processing and packaging before it is distributed to end consumers ultimately increasing the original value of the good. According to Kaplinsky (2000), the

[20] The recommendation ASSUMES that DA can effectively influence Land Bank of the Philippines to find creative ways to finance the agriculture and rural sector. It has potential allies in the Board of Directors: the Department of Agrarian Reform and the small farmers' representative in the board.

[21] Van Roekel, Jan, Sabine Willems and Dave M. Boselie. 2002. Agri-Supply Chain Management: To Stimulate Cross-Border Trade in Developing Countries and Emerging Economies.

importance of the value chain lies in the concept that the chain is a repository for economic rents, i.e. each link in the chain carries a premium from which profits can be made. Increasingly, primary economic rents in the chain of production are to be found in the areas outside of production.[22] Key changes are occurring in the structure of food production, marketing, processing, and distribution that require parallel shifts in the type of financing provided by banks[23]. Globalization has highlighted the need for local economic agents to find their respective niches in the global supply chain if they are to compete and survive.

32. However, the government and private banks have yet to adjust their financial and credit policies, strategies and operating procedures to meet the emerging challenge from the global agri-supply chain. They have yet to devise appropriate lending strategies and financial services for local economic agents in the production, processing, marketing and distribution sectors and also for those engaged in providing local infrastructure support, searching for their respective niches in the global supply chain. Looking at rural financial markets from the perspective of global supply chains is a new area for the government in general and in particular for, DA and Land Bank of the Philippines. They need technical assistance from donors such as the World Bank to learn more about how global supply chain works, what kind of measures will be necessary to make it work for Philippine agriculture, etc. The global agriculture-based supply chain provides an entirely new framework to the Department of Agriculture, the Land Bank of the Philippines and the private sector to collaborate in financing rural development.

Recommendation:

(a) The Department of Agriculture should collaborate with the private sector, e.g., Chambers of Commerce, in order to identify the country's particular niche in the global value-added supply chain to determine the required support from government.

(b) The Land Bank of the Philippines should examine how its financial and credit policies, strategies and operating procedures can be supportive of private sector participation in the global value-added supply chain. For a start, the Land Bank should evaluate whether its financial products and services adequately respond to the demand for production, processing, marketing and distribution of farm-based products required by the value-added supply chain.

33. **Pension fund reforms**. The importance of pension fund reforms to develop the capital markets should be reiterated notwithstanding many studies produced by donors for the government calling attention to its importance. It bears emphasis in this short paper because a developed capital market would make available the longer-term financing needed by the economy. Banks have mostly short-term liabilities that do not match the desire of certain borrowers for funding long-term assets. Thus, rural finance policy reforms can not be an isolated effort but should be undertaken in the context of the reform of the whole capital markets.

Recommendation:

[22] Kaplinsky, Raphael. 2000. Spreading the Gains From Globalization: What Can Be Learned From Value Chain Analysis? Journal of Development Studies. Volume 37, Number 2.

[23] Thomas Reardon and Julio A. Berdegué, "The Rapid Rise of Supermarkets in Latin America: Challenges and Opportunities for Development," *Development Policy Review,* 2002, 20 (4): 371-388.

(a) The Department of Finance, as the agency responsible for policy coordination of the pension funds, should spearhead efforts in pension fund reforms as well as in the development of the capital markets. From the operational standpoint, DOF should review the sustainability of the pension fund system in view of the inadequacy of funding relative to defined benefits; the need to introduce more efficient management of the pension funds through private sector participation; and greater accountability of pension fund managers to the members of the fund and advocate for the required reforms for executive or legislative action.

III. Conclusion and recommendations

34. This brief paper reviews the post-reform situation in rural finance markets, indicated the policy gaps and provides specific recommendations for government action. The major gaps consist of the following:

- Non-termination of the remaining subsidized credit programs;
- Failure to develop details of the AMCFP and how the private sector can collaborate with government banks which were designated as wholesalers of the AMCFP funds;
- Lack of financing for long-gestating crops
- Inability of banks to provide funding in the range of Pesos 150,000 to Pesos 1 million, the so-called “missing middle of rural financial markets”
- The inability of credit cooperatives to become viable rural financial intermediaries
- The failure of government and government banks to consider rural households as business enterprises operating on-farm and non-farm economic activities;
- The lack of appropriate financing strategies and instruments to deal with the global agriculture-based supply chain;
- The need for pension funds reform and capital market development to make available long-term financing.

The recommendations were proposed right after the discussion of the gaps.

GMLl/2/27/05

Annex A. Rural Finance and Microfinance Reforms and Status of Terminated Subsidized Credit Programs[24]

1. In the seventies, the government followed a supply-driven and subsidized commodity-specific approach in agricultural lending. In the mid-eighties, the subsidized agricultural credit programs collapsed under the weight of poor loan collection and mounting arrears of small farmers and other countryside borrowers with the rural banks which were used by the government to channel credit to end-borrowers. The pressure of donors such as the World Bank forced government to liberalize the financial markets in the 1980s. Interest rates were deregulated and the Central Bank of the Philippines gave up its development finance role. The World Bank's Agricultural Loan Fund was transferred to the Land Bank of the Philippines (LBP) and since then, the LBP has functioned as the government financial institution (GFI) tasked with delivering credit to the countryside.

2. Following reforms instituted in the financial markets in the mid-eighties, the government pursued a market-oriented agricultural credit policy. The government deregulated interest rates on deposits and loans and in 1987, terminated 20 subsidized agricultural credit programs and consolidated them into the Comprehensive Agricultural Loan Fund (CALF). The government used the CALF to encourage private banks to lend to small farmers by providing a guarantee cover of as much as 85% of the outstanding loan of the farmer-borrower. Upon loan default, the government would reimburse the private lending institution 85% of the outstanding loan (principal plus interest) of the small farmer. The Agricultural Credit Policy Council cautioned that credit guarantees were not enough to provide access to formal credit to small farmers and other small borrowers. Those borrowers would continue to face problems of access to formal credit for as long as there were economic policy biases against agriculture and rural areas and for as long as rural infrastructure and institutions remained deficient and inadequate.

3. Unfortunately, politicians and the government bureaucracy thought that creating more subsidized credit programs would solve the problem. In 1989, bowing to political pressure, the government introduced subsidized credit programs in the agriculture and non-agriculture sectors. In the non-agriculture sector, the Department of Trade and Industry created the Tulong sa Tao program with funding from donors to provide subsidized loans to small enterprises and other borrowers. The end result was the proliferation of subsidized credit programs in all sectors of the economy. By June 1998, there were nearly a hundred separate and fragmented subsidized (directed) credit programs (DCPs) more or less equally shared by the agricultural and non-agricultural sectors[25].

4. The Comprehensive Agricultural Loan Fund (CALF) failed to provide small borrowers greater access to formal credit. The government's intervention in the agricultural credit markets through the CALF did not have a significant impact on the problem of access to formal credit of small farmers/small scale borrowers. The credit guarantee schemes for the agriculture sector were found to be ineffective in increasing the flow of formal credit to small farmers based on evaluations conducted on the financial institutions' side (Llanto and others 1991) and the end-borrowers' side (Llanto and Magno 1994). The private banks used the loan guarantee offered by the government as additional security on top of the traditional collateral, e.g., real estate that they asked borrowers to provide. A hypothesis is that banks

[24] The experience is amply recorded and analyzed in various studies done by the Agricultural Credit Policy Council and the Philippine Institute for Development Studies, among others. This paper draws from Gilberto M. Llanto, "Rural Finance and Developments in Philippine Rural Financial Markets: Issues and Policy Research Challenges" a study prepared for the Agricultural Credit Policy Council, January 31, 2004.

[25] Llanto, Gilberto, Ma. Piedad S. Geron and Marie-Christine G. Tang. 1999. Directed Credit Programs: Issues and Framework for Reform. Manila, Philippines: Credit Policy Improvement Program, Department of Finance-National Credit Council.

prefer to lend to their regular clientele, not the intended clients- the small farmers, believing that the government's guarantee facilities may not have adequate reserves to meet a sufficiently large claim (Esguerra 1996; Llanto and others 1991)[26].

5. On the other hand, the subsidized, directed credit programs (DCPs) failed to achieve the desired result of providing access to formal credit by small farmers and other small-scale borrowers. Various studies by the Credit Policy Improvement Program of the National Credit Council (NCC-CPIP) in 1997 and 1998 and earlier by the Technical Board for Agricultural Credit/Agricultural Credit Policy Council documented the reasons for the failure. Those studies found out that DCPs were ineffective and inefficient. They were costly and a wasteful use of scarce government resources.

6. Thus, the government through the National Credit Council undertook a serious overhaul of the credit policies of the government in the late nineties[27]. The NCC-CPIP formulated a National Strategy for Microfinance in view of the emerging importance of microfinance in providing finance services to small scale clients, especially those who can not produce the collateral traditionally required by private banks. Congress supported the credit policy reform thrusts of the government by enacting into law the Agriculture and Fisheries and Modernization Act (AFMA) and the General Banking Law of 2000. The General Banking Law of 2000 laid the groundwork for developing an appropriate regulatory framework for the microfinance industry. To complement the credit policy reform in the AFMA, the government through the National Credit Council issued Executive Order Number 138 that terminated the subsidized directed credit programs in the non-agriculture sector and prohibited direct lending to target clients by government non-financial agencies.

7. National strategy for microfinance. The National Strategy for Microfinance provides the government's policy framework for microfinance as follows:

- greater role of the private sector/microfinance institutions (MFIs) in the provision of financial services to small scale clients, e.g. micro-entrepreneurs, poor households;
- enabling policy environment to facilitate private sector participation
- market-oriented financial and credit policies
- wholesale loans to MFIs by government financial institutions (GFIs) to private financial institutions for on-lending by the latter; and
- prohibition to government (non-financial) line agencies to lend or implement credit guarantee programs.

8. Given this policy framework, the roles of various players in microfinance, are as follows:

- MFIs: to engage in sound, sustainable and viable microfinance intermediation;
- National Government through the National Credit Council (NCC): to provide a market-oriented financial and credit policy environment to promote efficient financial markets, and help private MFIs broaden and deepen their microfinance services;
- People's Credit and Finance Corporation (PCFC): to provide wholesale loans and technical assistance to the MFIs and support the development of innovative financial products/services for poor households/microenterprises;
- Government Financial Institutions (GFIs): to provide wholesale loans (including those sourced from foreign borrowings) to MFIs which do not have access to wholesale loans from private commercial banks;

[26] Llanto (January 2004) for an extensive discussion.

[27] With assistance from the Credit Policy Improvement Program (CPIP), a technical assistance project funded by the U.S. Agency for International Development (USAID),

- Commercial and other private banks: to provide wholesale funds and financial services to MFIs;
- Non Governmental Organizations (NGOs): to provide technical assistance facilitating the linkage between the poor households/microenterprises and MFIs, community organizations and capacity building of the target clientele;
- Donors: to provide assistance to social preparation activities, and technical assistance that will lead to the broadening and deepening of microfinance services.

9. General Banking Law of 2000. The basic law that paved the way for the creation of the favorable environment for banks engaged in microfinance is the General Banking Law of 2000. The regulator, Bangko Sentral ng Pilipinas (BSP) has issued various circulars supporting the creation and strengthening of MFIs. The favorable environment has contributed to the rapid growth of outreach of MFIs as well as the strengthening of the microfinance programs of rural banks/cooperative rural banks/ microfinance-oriented banks. Credit cooperatives have a great potential in providing microfinance services to poor households. The government has taken steps to strengthen them through various projects such as development of standard chart of accounts and performance standards for cooperatives. The Cooperative Development Authority (CDA) is also being strengthened to act as an effective regulator of cooperatives. NGOs which are not regulated by any governmental body are being encouraged to observe a set of performance standards developed by the government and MFIs[28].

10. Agriculture and Fisheries Modernization Act and EO 138. The Agriculture and Fisheries Modernization Act (AFMA) of 1997 or RA 8435 was enacted into law which provides for, among other things, the phase out or termination of thirty-nine (39) directed credit programs (DCPs) including the CALF within a period of 4 years and the consequent consolidation of outstanding loan funds including new funds for on-lending into the Agro-Industry Modernization Credit and Financing Program (AMCFP).

11. The Agriculture and Fisheries Modernization Act (AFMA) of 1997 (RA 8435, Chapter 3) and Executive Order (EO) 138 issued in 1999 provide the policy framework for government credit/financing programs and the role of government. Key policies espoused by these legal issuances include: i) encouragement and promotion of the active participation of private banks and other financial institutions in rural/agricultural/micro financing; iii) charging market-based interest rates that would ensure recovery of costs, sustain availability of credit funds, and enhance outreach of financing to the target sector; and iv) longer grace periods for long-gestating agriculture and fisheries projects.

12. Under AFMA and EO 138, government non-financial agencies (GNFAs) are no longer allowed to implement credit programs or lend to target beneficiaries. The subsidized credit programs in the agriculture sector also known as directed credit programs or DCPs shall be terminated. The outstanding cash balances shall be pooled into the Agro-Industry Modernization Credit and Financing Program (AMCFP) and shall be turned over to government financial institutions (GFIs) which are mandated to manage and implement the AMCFP. The GFIs shall wholesale the consolidated loan funds under the AMCFP to private financial institutions which shall take care of lending directly to end-borrowers in the agriculture and rural sector.

13. Meanwhile, GNFAs and government-owned and-controlled corporations (GOCCs) engaged (or used to engage in credit delivery) are enjoined, particularly under EO 138, to focus on the provision of critical services such as rural infrastructure, as well as human and organizational infrastructure with end

[28] See NCC-JBIC Pilot Study on Sustainable Microfinance for Poverty Reduction in the Philippines, a study prepared for the National Credit Council, Department of Finance, October 2004.

in view of making the agriculture and rural sector profitable. With respect to credit programs, GNFAs and GOCCs are directed to focus on the provision of capability building services to enhance credit delivery and undertake monitoring and evaluation particularly to make sure if targeted beneficiaries of the credit program are served.

14. The AMCFP would be the overall government credit program for the agricultural and rural sector, particularly the smallholders. AMCFP shall replace the different subsidized directed credit programs of the Department of Agriculture and consolidate credit delivery to small farmers and fisherfolk through private financial institutions. AMCFP is designed to be multi-track, multi-commodity, and basically market-driven. The Land Bank of the Philippines (LBP) and Quedan Credit and Guarantee Corporation (Quedancor) will wholesale the AMCFP funds to private financial institutions, including microfinance institutions which in turn, will on-lend to small farmers and other smallholders in the agriculture and rural sector.

15. The Development Bank of the Philippines (DBP) and in a very minor way, the Small Business Corporation, both government financial institutions, use private rural financial institutions to finance the small and medium rural enterprises. The People's Credit and Finance Corporation, a government-owned microfinance company provides microfinance loans and capacity building assistance to around microfinance institutions (MFIs)[29]. The MFIs in turn on-lend to microenterprises and poor households. Microfinance loans are mostly non-agricultural, working capital loans

16. In summary, the government has recognized the failure of subsidized, directed credit programs (DCPs) to provide small farmers and other small-scale borrowers access to formal credit. The government terminated the subsidized DCPs, tried to consolidate the remaining loan funds into the Agricultural Modernization Credit Financing Program (AMCFP) and asked the government financial institutions to implement the AMCFP as a wholesale lending program to address the credit financing needs of the agriculture and rural sector. Under the new credit policy framework, private financial institutions which receive wholesale loans from government financial institutions under the AMCFP shall on-lend to the end-borrowers. Thus, there is a significant shift in government rural finance policy: from a highly subsidized DCP approach to a market-oriented credit policy orientation through various issuances such as AFMA, EO 138, General Banking Law of 2000 and the National Strategy for Microfinance. Policy makers believed that government's role is to provide the enabling environment for greater private sector participation in the rural and microfinance credit markets. The key challenge is for the government financial institutions to work with private financial institutions in addressing the lack of access of small borrowers to formal credit.

2. Status of the termination of subsidized agricultural credit programs as mandated by AFMA and implementation of AMCFP

17. The Department of Agriculture (DA) issued Department Order No. 1 on May 3, 1999 which required all DCP implementing agencies and bureaus under DA to submit to ACPC their respective rationalization/phase-out plans, particularly the identification of possible legal and administrative impediments to the process. In compliance with the said order, the ACPC, Quedancor, the Bureau of Animal Industry, National Dairy Administration, National Agriculture and Fishery Council and DA-Special Concerns Office submitted their plans for the phase-out of 23 of the 38 DA-DCPs.

[29] As of March 31, 2004, the 196 MFI borrowers (called conduits) of PCFC have an aggregate outreach of 1,099,025 clients. See Gilberto M. Llanto, 2004. "Microfinance in the Philippines: Status, Issues and Challenges." Policy Notes Number 2004-10, Philippine Institute for Development Studies, November.

18. However, the consolidation process of the DCPs under the DA moved at a very slow pace. There seemed to be some resistance by DCP implementers to turn over the loan funds to the AMCFP account with the Bureau of Treasury. One possible reason was the absence of guidelines and procedures for implementing the Department Order. It took two years (1998-2000) to review the legal and administrative arrangements of each DCP, to conduct consultative meetings with the DCP-implementing agencies and bureaus and to formulate rationalization/phase-out plans.

19. The government finally approved on March 11, 2003 the Department of Agriculture-Department of Finance-Department of Budget and Management Joint Circular No. 1 that spelled out the agreement among these three departments to phase out the agricultural DCPs as provided by the AFMA law. Immediately upon approval of DA-DoF-DBM Joint Circular No. 1, DA-Administrative Order No. 16 was issued and took effect on April 15, 2003, instructing all bureaus, agencies and corporations attached to the DA to implement the consolidation of the Department's DCPs into the AMCFP, and authorizing the ACPC Secretariat to undertake any and all necessary action to ensure the smooth and orderly implementation of the phase-out and turn over of the loan funds, pursuant to DA-DoF-DBM Joint Circular No. 1 of 2003.

20. While the government has put in place the necessary legal and administrative instruments (i.e., the AMCFP Implementing Guidelines, EO 138, Joint Circular No. 1 of 2003, DA Administrative Order No. 16 of 2003), the implementation of the phase out and other reforms in rural finance has been an arduous and slow task. The ACPC has to undergo protracted negotiations with the affected bureaus, agencies and corporations under the Department of Agriculture on the phase-out plans of each of these units, the consolidation of the outstanding loan funds into the AMCFP and the transfer of the management of said funds to private and government financial institutions, including viable NGOs and cooperatives/groups. The ACPC reports that some government non-financial agencies have taken a long time to summarize and consolidate their DCPs into the AMCFP. The information on outstanding funds and supporting records were not immediately made available. An important issue is the collection of outstanding DCP loan receivables. In the case of foreign-funded agricultural credit programs, that is, the European Union programs such as the Central Cordillera Agricultural Program, Upland Development Project and others, the EU delegation in the Philippines contended that it was the owner of those credit funds and thus, it resisted the consolidation of those funds to the AMCFP[30].

21. **Status of phase-out of DCPs**[31]. DCPs are defined as "credit projects, activities and programs targeted at a specific sector or sectors of the population, implemented by a government or quasi-government non-financial agency directly or indirectly through an executing agency, fund manager, administrator or conduit, and whose funding comes at least partly from government or public resources, appropriations, local or foreign grants to government, loan proceeds from any source, or which involve government guarantee." (AFMA Implementing Rules and Regulations, Rule 4.1.6).

22. An inventory done by ACPC on June 30, 2002 listed 38 DCPs under the Department of Agriculture with total loan funds of around P5.5 billion for consolidation into the AMCFP. Around 61% or roughly P3.4 billion of the total loan funds came from the government regular budgetary appropriations (GAA), representing fund balances of 16 credit programs of the DA implemented by the regional field units (RFUs), ACPC, Quedancor and/or Land Bank of the Philippines (LBP). Eight foreign-assisted credit programs that were identified for consolidation had total loan fund of about over P1 billion. Table A-1 shows that most (24) of the identified DCPs already terminated as of the inventory period.

---

[30] Agricultural Credit Policy Council.

[31] The following paragraphs draw from Gilberto M. Llanto. 2005. "After DCPs, What? "**Policy Notes**, Philippine Institute for Development Studies. Draft.

23. As of September 2004, a total of P721 million from 12 terminated DCPs have been collected and deposited at the AMCFP account with the Bureau of Treasury. ACPC efforts in rationalizing the credit programs also resulted in the conversion of loan funds into institutional capacity building funds, particularly those of the CALF-funded Integrated Rural Financing (IRF) Program implemented by the LBP and the EU-funded Central Cordillera Agricultural Program (CECAP) which ended in mid 2004. To date, ACPC continues to review loan documents and memorandums of agreement covering the remaining 'uncollected' DCP funds particularly those of credit programs implemented by the DA RFUs.

Table A-1. Loan Funds of Agricultural DCPs for Consolidation into the AMCFP, as of Inventory of June 30, 2002

	NAME OF DCP	Implementing Agency/GFI	Amount for consolidation (in P000)
A. GAA - funded terminated programs			
1	Grains Production Enhancement Program (GPEP)*	DA, LBP, Quedancor	86,507
2	Micro Credit Program/ Congressional Initiative Allocation (CIA)*	ACPC, Quedancor	24,088
3	Gintong Ani II- On Lending Program (GA II)*	DA, Quedancor	264,499
4	Gintong Ani II- on Lending Program/CIA*	ACPC	4,500
5	Rice and Corn Based Farming System – High Value Commercial Crops (RCBFS-HVCC)*	ACPC	56,760
6	Gintong Ani II/ Cooperation Program (GA)*	DA, LBP	127,460
7	Credit and Credit Guarantee Project Under the Poverty Alleviation Fund for Direct Assistance Farmers (PAFDAF)*	Quedancor	17,982
B. GAA - funded on-going programs			
8	Agricultural Competitiveness Enhancement Fund (ACEF)	DA	83,312
9	Rice and Corn Based Farming System*	Quedancor	445,600
10	Long Gestating Crop Production (LGCP)	Quedancor	30,000
11	Makamasa Corn	Quedancor	22,000
12	High Value Commercial Crops (HVCC)	Quedancor	208,568
13	Sugar Farm Modernization (SFM)	Quedancor	60,000
14	Local Government Unit (LGU)	Quedancor	74,579
15	Fisheries Integrated Livelihood Program (FILP)	Quedancor	54,580
16	DA - Banner Programs (various programs for rice, corn, high-value crops)	DA Regional Field Units	1,868,756
	SUB -TOTAL (GAA-funded DCPs)		***3,385,937***
C. CALF - funded terminated programs			

17	Agricultural Mechanization Financing Program – Fixed Assets Acquisition*	ACPC, LBP	10,000
18	Credit Cooperative Assistance Program (CCAP)*	ACPC, CoopBanks	16,689
19	Davao Livestock Development (DALID)	ACPC	10,000
20	Nueva Ecija Marketing Cooperative (NEMCOOP)	ACPC then Quedancor	35,000**
21	Grains Production Enhancement Program (GPEP)/ Expanded Cooperative Assistance Program (ExCBAP)/ Gintong Ani Program (GA)	ACPC then Quedancor	47,782**
22	Grains Production Enhancement Program (GPEP) for Cooperative Banks	ACPC then Quedancor	2,400**
23	Consolidated Terminated Programs	ACPC then Quedancor	384,009**
24	Cooperative Bank Formation Assistance Program	ACPC then Quedancor	497**
25	Micro Credit Program for the Bottom Poor	ACPC then Quedancor	4,922**
26	Development Assistance Program for Cooperatives and People Organization (DAPCOPO)*	ACPC then Quedancor	17,257**
D. CALF - funded on-going programs			
27	Integrated Rural Finance (IRF)***	ACPC, LBP	233,093
28	Innovative Financing Scheme (IFS)	ACPC, LBP	100,000
29	Ginintuang Masaganang Ani- Countryside Assistance for Rural Employment Services (GMA- CARES)	Quedancor	300,000
	SUB -TOTAL (CALF-funded DCPs)		***1,161,648***
NAME OF DCP		**Implementing Agency/GFI**	**Amount for consolidation (in P000)**
E. Foreign - Assisted terminated DCPs			
30	Fisheries Sector Program*	ACPC, DBP, Quedancor, GFSME, PCIC	687,963
31	Development Assistance Program Cooperatives and People's Organizations	Quedancor	3,933
32	Establishment of Dairy Development Network in Selected Key Areas	National Dairy Authority	42,400
33	Catanduanes Agricultural Support Programme (CatAg)	DA then ARDCI	40,000
F. Foreign - Assisted on-going DCPs			
34	Multi Livestock Development and Livelihood Program (MLDLP)	Bureau of Animal Industry	245,800
35	Economic Self Reliance Caraballo & Southern Cordillera Agricultural Development Program (ERP-CASCADE)	DA	-
36	Central Cordillera Agricultural Program (CECAP)***	DA	11,653
37	Aurora Integrated Area Development Program (AIADP)	DA	9,044

38	Upland Development Program of Southern Mindanao (UDPSM)	DA	806
	SUB -TOTAL (Foreign-assisted DCPs)		***1,041,599***
	GRAND TOTAL		**5,589,183.96**

* DCPs consolidated into the AMCFP as of November 2004.

** Transferred to Quedancor pursuant to DA Administrative Order 10 dated June 18, 2002.

*** Credit funds have been converted to institutional capacity building (ICB) funds.

Source: Agricultural Credit Policy Council

24. **AMCFP Implementation**. Under the AFMA, DCPs shall be replaced by AMCFP, a single comprehensive government credit program, which aims to provide financing as well as cover the credit guarantee needs of the small agricultural sector. The AMCFP design approved by the ACPC Council, on 7 January 1999 and by NCC on 11 December 1998 called for government financial institutions (GFIs) to wholesale credit funds of the AMCFP to qualified private financial institutions (PFIs). PFIs shall in turn re-lend borrowed funds from the GFIs to target clients. The Land Bank of the Philippines and the Quedan Rural Credit and Guarantee Corporation (Quedancor) were the two GFIs tasked to implement the AMCFP.

25. In June 2003, Quedan Credit and Guarantee Corporation (Quedancor) obtained P300 million from AMCFP to wholesale loans in support of DA priority programs. After 15 months, Quedancor has released a total of roughly P174 million to 33 private financial institutions, comprised of cooperatives and rural banks, in 9 regions (see **Table A-2**). There were 5,304 end-borrowers who reportedly used their loans for corn, sugarcane, rice, soybean, and other agriculture and fishery projects. It also gave a loan guarantee cover to loans amounting to P144.5 million loans provided by participating private banks to 156 small farmers

Table A-2. AMCFP: Amount of Loans Released by Quedancor, Number of Participating PFIs and End-borrowers
As of September 30, 2004

REGION	No. of Participating PFIs	Amount Released (PM)	No. of end-beneficiaries
NCR*	1	25.30	91
I	1	0.08	25
II	3	6.50	580
III	1	3.00	300
IV		-	-
V		-	-
Total – Luzon	***6***	***34.88***	***996***
VI		-	
VII	5	12.50	388
VIII		-	-
Total – Visayas	***5***	***12.50***	***388***
IX	12	82.50	2,354

X	1	15.00	85
XI	1	10.00	-
XII		-	-
CARAGA	8	18.68	1,482
Total – Mindanao	***22***	***126.18***	***3,921***
GRAND TOTAL	**33**	**173.56**	**5,305**

* includes Bulacan, Cavite, Rizal and Occidental Mindoro

Source:Agricultural Credit Policy Council

26. To comply with the requirements of AFMA to provide financing to the agriculture sector, the Land Bank of the Philippines (LBP) provided loans to a growing number of clients. It had a cumulative total of around 1.3 million clients (beneficiaries) as of October 2004[32]. LBP loans under AFMA have been increasing at a nominal rate of 14% per annum and by the end of October 2004, it has granted a total of P64.7 billion of credit and technical assistance. On a yearly basis, it has released an average of about P16.1 billion of loans which benefited on average 331,733 farmers and fishers and generated 105,406 jobs (Table A-3).

Table A-3. LBP AFMA Accomplishments, 2001 to 2004

	2001	2002	2003	Jan-Oct 2004	Total as of Oct 2004
Loans Granted (million pesos)	13,818	16,653	17,804	15,878	64,153
Capability Building Assistance (million pesos)	120	165	164	114	563
Number of Beneficiaries	323,940	362,810	308,450	288,476	1,283,676
Number of Jobs Generated	132,175	78,064	105,978	175,871	492,088
Loans as % of LBP portfolio*	13.0	14.8	15.5	14.3	14.4
Loans as % of priority sector loans**	34.2	29.7	27.7	29.6	29.9

*using average total LBP portfolio and total priority sector loans for 2001 and 2003

** Includes loans to farmers and fisherfolk, SMEs and micro-enterprises, agribusiness, LGU's agri-infrastructure projects, GOCC's agri-related projects, livelihood loans and environment-related projects.

Sources: Agricultural Credit Policy Council and LBP 2003 and 2002 Annual Reports.

27. AFMA loans released by LANDBANK as of October 2004 comprised at least 14% of its total loan portfolio. AFMA loans, on average, were roughly one-third of total loans to identified priority sectors composed of farmers and fisherfolk, SMEs and micro-enterprises, agribusiness, LGU's agri-infrastructure projects, GOCC's agri-related projects, livelihood loans and environment-related projects (Table A-3).

28. However, total loans granted to the agriculture sector pales in comparison to loans granted to other sectors. LBP loans to the agriculture and rural sector was still concentrated on low value-added rice production although livestock, high value crops and fisheries seem to be more promising in terms of

[32] Land Bank did not report whether these are entirely new clients that were funded under the AMCFP. Some of these clients could be clients during the pre-AFMA/AMFCP period.

value-added or contribution to domestic output. Marketing assistance loans were almost one-third of total loans granted. Post-harvest facilities and rural infrastructure loans were miniscule, with the bulk going to construction or improvement of rice mills and farm-to-market roads (Table A-4).

Table A-4. LBP AFMA LOAN RELEASES, by Component, 2001- 2004

	2001		2002		2003		January - October 2004		TOTAL (As of October 2004)	
	Loans Granted (PM)	Number of Benefi-ciaries	Loans Granted (PM)	Number of Benefi-ciaries	Loans Granted (PM)	Number of Benefi-ciaries	Loans Granted (PM)	Number of Benefi-ciaries	Loans Granted (PM)	Number of Benefi-ciaries
A. PRODUCTION, PROCESSING, MANUFACTURING	9,031	159,985	9,731	138,883	10,163	144,026	10,249	155,991	39,174	598,885
CROPS	5,095	99,730	5,147	94,240	5,508	103,767	3,758	71,170	19,508	368,907
a. Rice	2,039	45,488	1,991	39,493	2,280	45,898	1,524	35,033	7,834	165,912
b. Corn	274	7,586	259	7,048	248	8,493	164	3,835	945	26,962
c. HVCC	1,001	16,505	1,067	15,921	1,126	14,096	855	11,478	4,050	58,000
d. Other crops a/	1,780	30,151	1,829	31,778	1,855	35,280	1,214	20,824	6,678	118,033
LIVESTOCK	2,049	43,805	2,020	33,101	2,069	29,871	1,206	27,399	7,344	134,176
POULTRY	417	5,370	602	3,977	569	4,555	468	3,390	2,056	17,292
FISHERIES	701	5,381	863	5,750	779	4,682	485	2,905	2,829	18,718
AGRI COMMODITIES COMBINED							3,000	50,000	3,000	50,000
OTHERS b/	770	5,699	1,099	1,815	1,238	1,151	1,331	1,127	4,437	9,792
B. IRRIGATION	57	867	21	7,077	130	57	24	611	231	8,612
C. POST-HARVEST FACILITIES	62	3,094	500	6,459	602	1,858	349	1,558	1,514	12,969
D. OTHER INFRASTRUCTURE	395		156		489		278		1,317	
E. FARMERS/FISHERFOLK MARKETING ASSISTANCE SYSTEM	4,273	159,994	6,245	210,391	6,420	162,509	4,979	130,316	21,917	663,210
TOTAL (CREDIT ASSISTANCE)	13,818	323,940	16,653	362,810	17,804	308,450	15,878	288,476	64,153	1,283,676
F. CAPABILITY-BUILDING OF FARMERS AND FISHERFOLK ORGANIZATION AND LGUs (TECHNICAL ASSISTANCE)	82		165		164		114		525	

a/Sorghum, soybeans & feedgrains, abaca and other fibers, coconut, coffee and cacao, cotton, sugarcane, tobacco, etc.
b/ LBP - Agricultural services, pre harvest facilities, manufacturing/processing, other activity.
Source: Agricultural Credit Policy Council

Annex B. Recent performance of the Land Bank

1. Land Bank of the Philippines' loans to agriculture. Recent reports released by the Land Bank of the Philippines showed that loans released to "priority sectors' in 2004 reached Pesos 77.4 billion, an increase of 20% from 2003's P64.3 billion[33]. These loans are classified by the Land Bank as 'agricultural loans.' Thus, in 2004, the share of agricultural loans to the bank's total loan portfolio of Pesos 125 billion was 62%. The target in 2005 is to lend Pesos 84 billion or 65% of the total loan portfolio of Pesos 130 billion. The priority sectors' share in the total loan portfolio has increased from 36% in 2000 to 42% in 2001, then to 56% in 2003 and to 62% in 2003.

2. Land Bank loans to agri-business totaled Pesos 18.2 billion or 15% of total agriculture loans in 2004. Agri-business had the largest share followed by loans to microenterprises and small and medium enterprises at 14% of Pesos 17.2 billion. The farmers and fisherfolk borrowed Pesos 16.3 billion for a 13% share of total agriculture loans of Land Bank. The rest went to other priority sectors of the bank.

3. On a 5-year average, 35% of the total agriculture loans went to finance agriculture production; all the rest went to other agriculture-related activities. Agriculture-production loans made up 31% of the total agriculture loans granted in 2002, which were equivalent to 2% of the total loans granted to all sectors.

[33] The bank's priority sectors are the small farmers and fisherfolk, small and medium enterprises, microenterprises, agribusiness, livelihood, agri-infrastructure projects and agri-related projects.

Annex C. Agricultural Production Loans by Type of Bank

Table 2: AGRICULTURAL PRODUCTION LOANS GRANTED, BY TYPE OF BANK (in billion pesos)

	1987	1990	1995	1996	1997	1998	1999	2000r	2001	2002P
Government Banks	1.49	5.93	6.46	8.05	8.38	9.09	9.39	8.39	7.62	8.55
PNB	0.70	1.68 P	a	a	a	a	a	A	a	
DBP	0.13	0.25 P	0.99	1.22	1.12	0.69 r	0.26 r	0.26	0.21	0.90
LBP	0.65	4.00 P	5.47	6.83	7.26	8.40	9.13	8.13	7.40	7.65
Private Banks	25.97	35.31	76.11	556.66	367.86	105.99	161.09	105.29	114.98	141.31
PKBs	21.01	27.25 P	43.27 P	519.75 r	335.24 r	73.03 r	123.01 r	68.63	77.98	89.37
TBs	1.51	3.12	20.37	20.61	22.94	15.31	18.76	20.75	21.04	25.28
PDBs	1.01	1.14	6.36	4.23	6.03	5.28	7.93	6.72	7.70	9.62
SMBs	0.09	1.34	7.04	4.35	4.74	4.17	5.28	8.65	6.30	6.78
SSLAs	0.41	0.64	6.96	12.03	12.17	5.86	5.55	5.38	7.04	8.88
RBs	3.46	4.94 r	12.47	16.30	9.69	17.66	19.32	15.92	15.96	26.65
ALL BANKS: Total Agri Prod'n Loans Granted	27.46	41.25	82.57	564.72 r	376.24 r	115.08 r	170.48 r	113.69	122.60	149.86
Total Agri Loans Granted	n.a.	n.a	n.a.	n.a.	n.a.	299.04 r	401.88	335.31	414.28	487.73
Total Loans Granted to All Sectors	404.35	590.08	6,262.83	10,636.25 r	10,141.48 r	8,650.83 r	9,909.13	9,478.18	7,123.32	6,874.93

Source: BSP-DER, SRSO, Statistical Bulletin, RB System Annual Reports, LBP and DBP.

n.a./ Data not available

r/ Revised, based on actual reports from BSP

P/ Preliminary. Amounts were forecasted due to non-availability of actual data. For 2000 & 2001, LBP and DBP figures are actual Amounts

a/ Starting 1995, PNB was classified under PKBs

b/ For PKBs, estimated amount was based on actual data for first semester, 2000. For TBs, annual amount was estimated from actual data for first 3 quarters, 2000.