

FARM SECTOR CREDIT GUARANTEE SYSTEM: BOON TO SMALLHOLDER IN THE PHILIPPINES

Presented By:



Philippine Guarantee Corporation

NABARD-APRACA Regional Policy Forum
(March 04, 2021)

Food sufficiency and agricultural productivity is one of the cornerstones of socio-economic agenda of the Philippine government to realize its vision for all Filipinos to enjoy ***“Matatag, Maginhawa at Panatag Na Buhay”*** (Stable, Comfortable and Peaceful Life) under its ***“Ambisyon Natin 2040”*** (Our Ambition 2040) Program.

Accounting for around 10% of the country's Gross domestic product (GDP), agriculture and fisheries sector's (AFS) importance to the national economy remains far larger than its direct impact on the bottom line. The industry is a crucial employer and is one of the few trades available for many Filipinos living in remote, less-affluent regions.

While importance of AFS to the economy not just of the Philippines but of many countries is a given, access to credit and unlocking private funds, however, persist as a problem. The collateral requirements of banks and other lending institutions pose a serious challenge for small farmers and fishers trying to source funding for working capital. To address the issue, guarantee funds have been established and made operational over the years in many countries as a tool to increase the flow of funds into this sector. The guarantee instrument is issued in favor of bankers or financiers to encourage or induce them and make lending attractive by sharing or absorbing the risk associated with it rather than them investing their liquid funds in government securities or lending only to highly collateralized borrowers. By cushioning lending risks, it addresses the financial service providers' issues in areas such as portfolio concentration risk and capital requirements.

While it is true that the capability of banks and other financial institutions to screen credit is a relevant determinate of the use of the guarantee, as some have strong lending policies to assess loan risk efficiency, nonetheless, the purpose and relevance of the guarantee system remain as it plays a pivotal role in freeing-up their risk capital and use it for other loan undertakings, not to mention the considerable reduction or savings in the cost of handling and managing collaterals.

In 2018, the Philippine Guarantee Corporation (PhilGuarantee), being the principal agency for state guarantee finance of the Philippines, was tasked to administer the Agricultural Guarantee Fund Pool (AGFP) which was established in 2008 by virtue of Administrative Order No. 225-A. It formally took over the administration of the guarantee fund on September 1, 2019 from the Department of Agriculture.

The AGFP is a pool of funds from contributions of twelve (12) government-owned or controlled corporations and share from the penalties collected by the Bangko Sentral ng Pilipinas (Central Bank of the Philippines) from banking institutions for non-compliance or under compliance with the Agri-Agra Law (Republic Act 10000), a legislation that mandates banks, whether government or private, to set aside at least twenty-five percent (25%) of their total loanable funds for agriculture and fisheries credit in general, of which at least ten percent (10%) of the loanable funds shall be made available for agrarian reform beneficiaries.

The AGFP guarantee serves as a mitigation instrument intended to reduce the impact of specified risk on lenders. By targeting those members of the agricultural sector with less or no probability at all of securing access to commercial financing and by issuing guarantee cover to the loan extended by our partner lending institutions (PLIs) to small farmers and fishers (SFFs), PhilGuarantee assures them that portion of the loan will be repaid on maturity. The guarantee cover shall be up to 85% of the principal balance of the loan at the time of claim and was designed to improve SFFs' access to credit and their integration into formal financial markets.

When we say SFF-borrowers eligible for guarantee coverage, we are referring to the following:

Small Farmers – refer to small crop growers and small livestock and poultry raisers as defined below:

a. Small Crop Growers – refer to owner-cultivator, tenants, leaseholders, etc. who are tilling not more than five (5) hectares of agricultural lands.

b. Small Poultry and Livestock Raisers – refer to those having the following maximum hog, poultry and livestock inventory at the time of accreditation by the PLI:

- Poultry – 2,000 layers or 5,000 broilers;
- Swine –10 sows or 50 fatteners;
- Goat/Sheep – up to 50 heads for meat and/or dairy
- Cattle – 10 fatteners or 5 breeders;
- Dairy – 10 milking cows/carabaos

Small Fishers – refer to the following:

- a. Coastal Fishermen - own or operate a fishing boat, including paraphernalia with total weight of not more than three (3) gross tons and conduct fishing activities within fifteen (15) kilometers from the shoreline.
- b. Fishpond Operators – owner/operator of fishpond(s) of not more than five (5) hectares including those under fishpond lease agreement (FLA).

c. Fishcage Operators – owner/operator of fish cage(s) with total area of not more than 400 square meters.

d. Those engaged in aquaculture, which covers all forms of raising and culturing fish, shellfish, seaweed production, and other fishery species in brackish and marine areas of not more than five (5) hectares.

Having said that, let it be emphasized, unless otherwise provided for by law, that the guarantee we issue is not a promise or an obligation to face the repayment risk alone but rather, it is a risk-sharing tool whereby the recipient or beneficiary of the guarantee equally shares part of the risk, hence, 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 fine, the guarantee should not in any way reduce the PLIs effort to supervise and eventually enforce loan repayment from its borrowers.

Upon assuming the role of administrator, PhilGuarantee immediately reviewed and revised some of the processes and procedures pertaining to the establishment of the guarantee line and enrollment for guarantee coverage to facilitate the transactions. Further, to ensure no disruption in the extension of AGFP services during the period of transition, various activities were conducted such as orientations, one-on-one meetings and participation in conferences.

AGFP Guarantee Performance 2020

I. APPROVED GUARANTEE LINES

Partner Lending Institutions	No. of Partners	Outstanding Guarantee Line
Banks	35	₱4,880,000,000.00
Cooperatives	5	219,500,000.00
FO/MFIs	1	40,000,000.00
Total	41	₱5,139,500,000.00

AGFP took a pro-active marketing campaign that resulted to winning guarantee partnerships with forty one (41) lending institutions with a total guarantee line of ₱5.139 Billion.

AGFP Guarantee Performance 2020

II. GUARANTEED LOANS

Partner Lending Institutions		Amount
Banks		₱3,900,802,201.00
Cooperatives		139,713,164.00
FO/MFIs		206,732,331.00
Total		₱4,247,247,696.00

Of the total unsecured guaranteed loans in the amount of ₱4.247 Billion, 91.84% came from banks while cooperatives and farmer organizations/microfinance institutions shared 3.3% and 4.86%, respectively.

AGFP Guarantee Performance 2020

III. NUMBER OF ACCOUNTS

Partner Lending Institutions	Loan Transactions	Small Farmers and Fishers
Banks	51,445	40,270
Cooperatives	2,149	1,879
FO/MFIs	6,971	5,889
Total	60,565	48,038

A total of 48,038 SFFs benefitted from the partnership. We believe that 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.

Likewise, cognizant of the importance of the claim settlement process and timing of payments, as these factors have strong bearing on the acceptance and success of the system, PhilGuarantee modified the process and implemented relevant guidelines to speed-up the payment of claims

Unlike before where initial payment of claims of more than ₱50 Million per PLI and over ₱25 Million per year per PLI are being approved by the Governing Board, which incidentally meets only once a month, at present the President and CEO of PhilGuarantee is already authorized to approve the release of initial payments (80% of the guaranteed amount). Accordingly, we were able to address pending claims faster and simpler.

From September 1 to December 1, 2019 alone, PhilGuarantee was able to process 37 pending claims of 21 PLIs and paid a total of ₱101.9 Million.

In 2020, despite the many challenges we 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, nonetheless, did all its best and was able to process various claims, summary of which is shown below:

Type of PLI		Amount of Claims Paid
Banks		₱162,068,944.60
Cooperatives		3,222,765.31
FO/MFIs		3,050,742.63
Total		₱168,342,452.54

Our Claims Department is also finalizing the release of about ₱132.73 million worth of guarantee calls with ₱703.58 million still for evaluation.

While our guarantee product had achieved its objective of generating finance to SFFs, we are equally conscious not to place our financial resources under undue strain so as not to jeopardize our relationship with our PLIs.

All told, PhilGuarantee's commitment through its managed fund, the Agricultural Guarantee Fund Pool, to support the agriculture and fisheries sector by encouraging various lending institutions to provide the necessary financing to our small farmers and fishers will continue, if not aggressively pursued. This is our small way of showing support to the Philippine government's program to achieve ***“Matatag, Maginhawa at Panatag Na Buhay”*** (Stable, Comfortable and Peaceful Life) para sa lahat ng mamamayang Pilipino (for all Filipinos).

**Maraming Salamat po (Thank you) and more
power to NABARD and APRACA!**